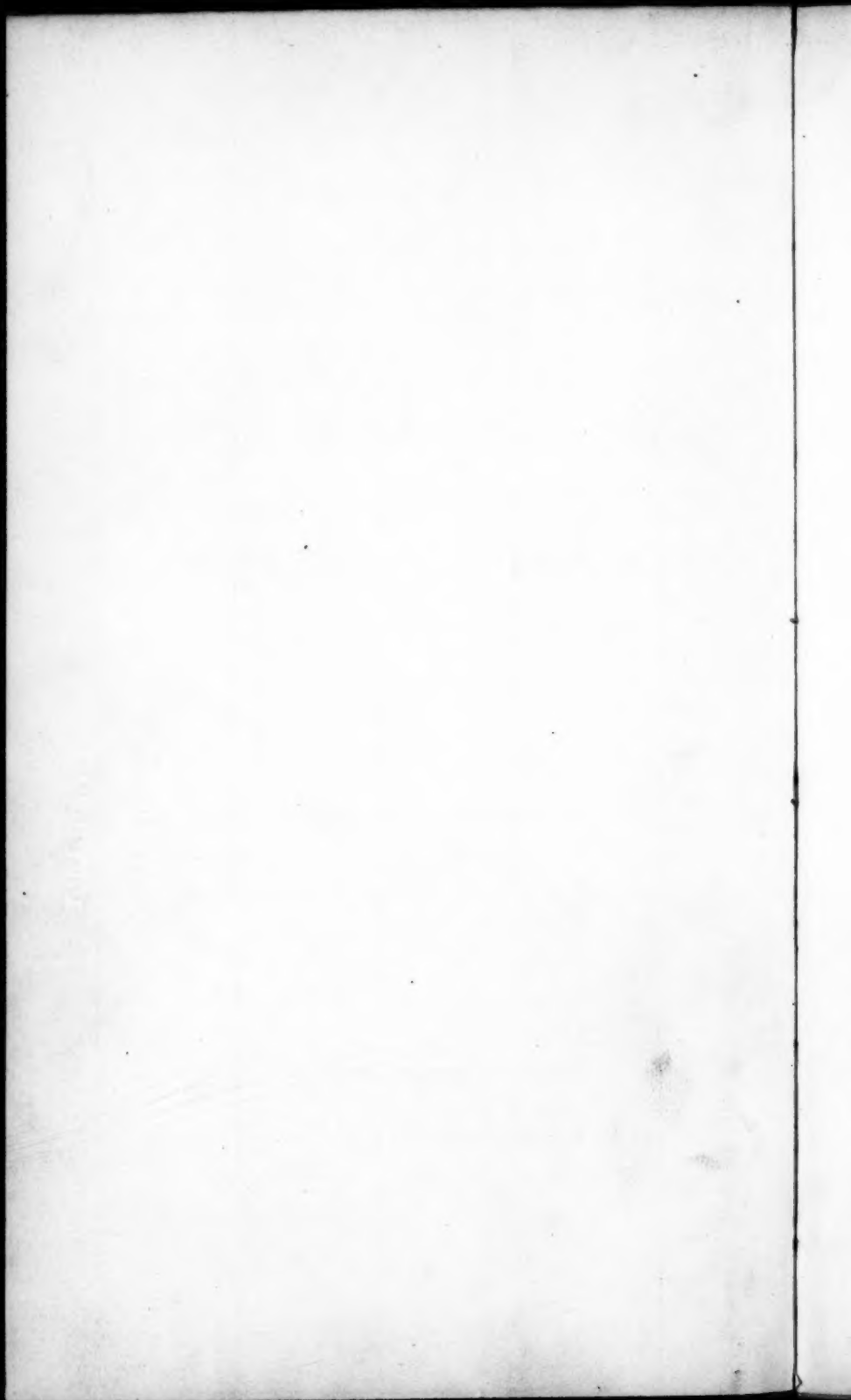


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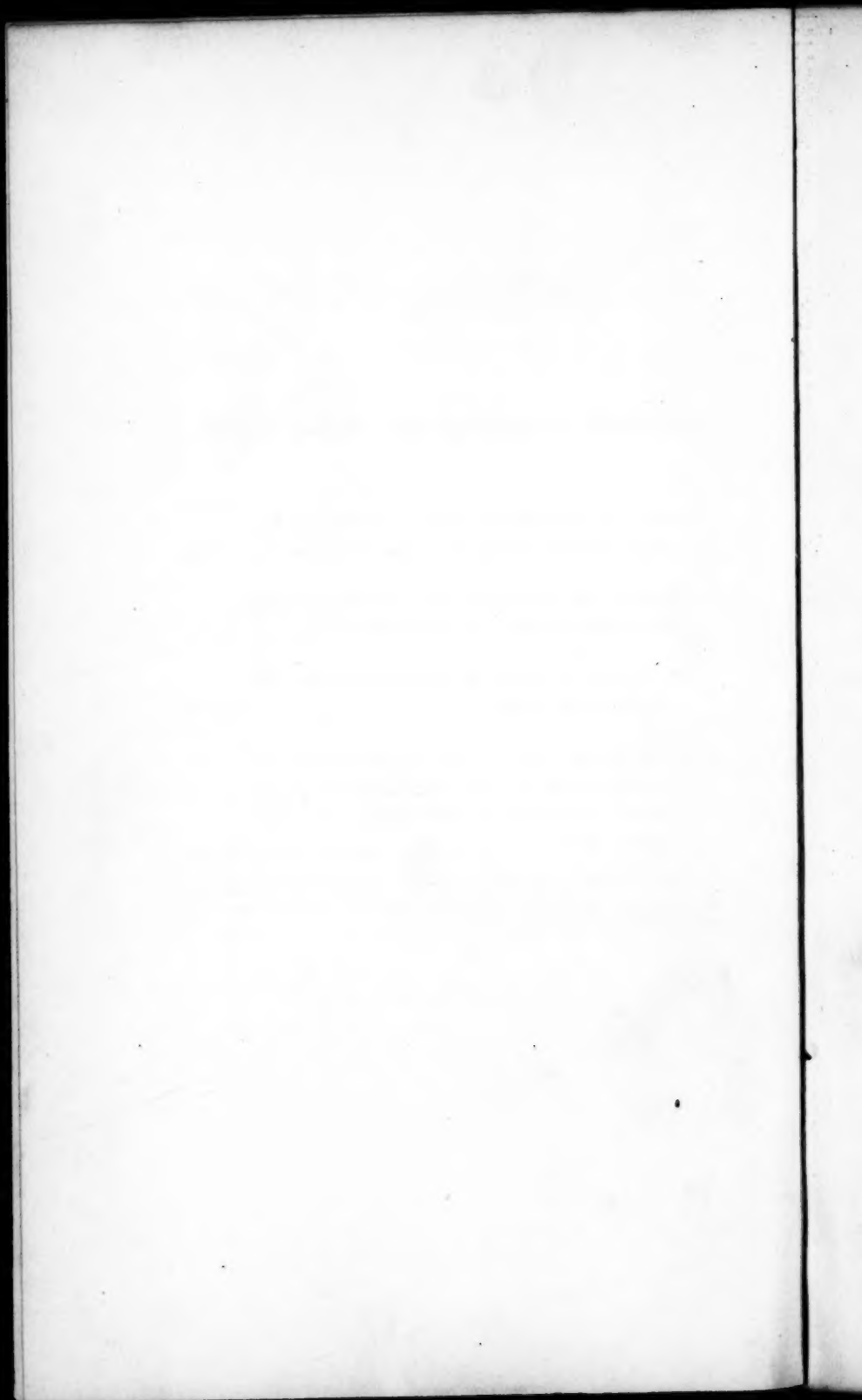




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## *AMERICAN ECONOMIC ASSOCIATION.*

---

The American Economic Association is an organization composed mainly of persons interested in the study of political economy or the economic phases of political and social questions. As may be seen by examining the list of members and subscribers printed in this volume, not only are all universities and most prominent colleges in the country represented in the Association by their teachers of political economy and related subjects, but even a larger number of members come from those interested as business men, journalists, lawyers or politicians in the theories of political economy or, more often, in their applications to social life. There are further more than one hundred subscribers, nearly all being large libraries.

The annual meetings of the Association bring together for professional and social intercourse many teachers and public men. In 1897, 1898, and 1900, the American Economic Association met in joint sessions and less formal gatherings with the American Historical Association, and it is probable that this custom, in force at the first two meetings of the Economic Association in 1885 and 1887, will be continued at Washington, D. C., in 1901. The annual meetings give opportunity for intercourse between the varied elements of the Association's membership, and they especially contribute to create and cement acquaintanceship and friendship between teachers of economics and cognate subjects in different institutions, and so to counteract any tendency to particularism which the geographical separation and the

diverse traditions of American colleges might be deemed to foster.

The Publications of the Association, a complete list of which is printed at the end of this volume, were begun in March, 1886. The first series of eleven volumes, comprising over six thousand three hundred pages, was completed by a general index in 1897. The second series was published in 1897-99, and in addition thereto the Association also issued, during 1896-99, four volumes of Economic Studies, containing, with the supplementary Hand-Books of the annual meetings, nearly six hundred pages each. In 1900, a third series of quarterly Publications of the American Economic Association was begun with the Papers and Proceedings of the Twelfth Annual Meeting, and has been continued since with ample amount and variety of matter. It is intended to add to these quarterly numbers, from time to time, such monographic supplements as the condition of the treasury and the supply of suitable manuscript may make possible. But in any case members and subscribers are assured of issues sufficient in quantity and quality to afford a generous equivalent for their dues.

The American Economic Association is the organ of no party, sect or institution. It has no creed. Persons of all shades of economic opinion are found among its members, and widely different views are given a hearing in its annual meetings and through its publications.

The officers of the Association and the contributors to its Publications receive no pay for their services. Its entire receipts are expended in printing and circulating the Publications and in the slight expenses attendant upon the annual meetings. Any member, therefore, may regard his annual dues either as a subscription to



an economic publication, a payment for membership in a scientific association, or a contribution to a publication fund for aiding the publication of valuable manuscript that might not be accepted by a publishing house governed primarily by motives of profit, and that could not be published by the writer without incurring too heavy a burden of expense.

## *CONSTITUTION.*

### ARTICLE I.

#### NAME.

This Society shall be known as the AMERICAN ECONOMIC ASSOCIATION.

### ARTICLE II.

#### OBJECTS.

1. The encouragement of economic research, especially the historical and statistical study of the actual conditions of industrial life.
2. The publication of economic monographs.
3. The encouragement of perfect freedom of economic discussion. The Association as such, will take no partisan attitude, nor will it commit its members to any position on practical economic questions.
4. The establishment of a bureau of information designed to aid members in their economic studies.

### ARTICLE III.

#### MEMBERSHIP.

Any person may become a member of this Association by paying three dollars, and after the first year may continue a member by paying an annual fee of three dollars. On payment of fifty dollars any person may become a life member, exempt from annual dues.<sup>1</sup>

<sup>1</sup> NOTE.—Each member receives all reports and publications of the Association.

ARTICLE IV.

HONORARY MEMBERS.

The Council may elect foreign economists of distinction not exceeding twenty-five in number, honorary members of the Association. Each honorary member shall be entitled to receive all reports and publications of the Association.

ARTICLE V.

OFFICERS.

The officers of the society shall consist of a President, three Vice-Presidents, a Secretary, a Treasurer, a Publication Committee, and a Council.

ARTICLE VI.

COUNCIL.

1. The Council shall consist of an indefinite number of members of the society, chosen, with the exception of the original members, for three years. It shall have power to fill all vacancies in its membership, and may add to its number.

2. It shall elect the President, Vice-Presidents, Secretary, and Treasurer, which officers, with the Chairman of the Publication Committee, shall constitute an Executive Committee with such power as the Council may entrust to it.

3. The Council shall organize itself into a number of standing committees upon the various lines of research undertaken. These committees shall prepare reports from time to time upon such subjects relating to their respective departments as they may select, or as may be

referred to them by the Council. These reports shall be presented to the Council at its regular or special meetings and be open to discussion. All papers offered to the society shall be referred to the appropriate committees before being read in Council.

4. The Council shall have charge of the general interests of the society, and shall have power to call meetings and determine what reports, papers, or discussions are to be printed, and may adopt any rules or regulations for the conduct of its business not inconsistent with this constitution.

5. The Council shall elect a Committee on Publications, which shall consist of six members, so classed that after the first election the term of two members shall expire each year. This committee shall have charge of and responsibility for the scientific publications of the Association.

## ARTICLE VII.

### AMENDMENTS.

Amendments, after having been approved by a majority of the Council, may be adopted by a majority vote of the members present at any regular meeting of the Association.

## BY-LAWS.

---

1. The President of the Association, who shall be *ex-officio* a member of the Council, shall preside at all meetings of the Council and Association, and perform such other duties as may be assigned to him by the Council. In case of inability to perform his duties, they shall devolve upon the Vice-Presidents in the order of their election, upon the Secretary and Treasurer, and upon the Chairmen of the Standing Committees, in the order in which the committees are mentioned in the list.

2. The Secretary shall keep the records of the Association, and perform such other duties as the Council may assign to him.

3. The Treasurer shall receive and have the custody of the funds of the Association, subject to the rules of the Council.

4. The following Standing Committees shall be organized :

- (1). On Labor.
- (2). On Transportation.
- (3). On Trade.
- (4). On Public Finance.
- (5). On Industrial and Technical Education.
- (6). On Exchange.
- (7). On General Questions of Economic Theory.
- (8). On Statistics.
- (9). On Teaching Political Economy.

The Executive Committee may appoint such special committees as it may deem best.

5. At any meeting called by the general summons of the President five members shall constitute a quorum.

6. Papers offered for the consideration of the Council shall be referred by the Secretary, each to its appropriate committee.

7. In order to encourage economic research, the Association proposes to render pecuniary assistance in the prosecution of the same, and to offer prizes for the best monographs upon selected topics. It stands ready to accept and administer any fund placed at its disposal for either purpose.

8. The Executive Committee shall have power at any time to add new members to the Council.

9. The Executive Committee shall assign all members of the Council to one of the Standing Committees, and shall appoint the Chairmen of the Committees.

10. It shall be the duty of the Chairman of the respective Committees to organize and direct the work of the same, under the general control of the Council.

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- YAGER, Prof. ARTHUR, Ph.D., Georgetown, Ky.
- YOMANS, G. F., Fort Smith, Ark.
- YOUNG, ALLYN A., Madison, Wis.
- YOUNG, Prof. F. G., Eugene, Oregon.
- YOUNG, JAMES T., Ph.D., University of Pennsylvania, Philadelphia, Pa.
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Washington .....	5
West Virginia .....	4
Wisconsin .....	27
Wyoming .....	2
Canada .....	9
Other foreign countries .....	49
Total .....	802

## THE THIRTEENTH ANNUAL MEETING.

The Thirteenth Annual Meeting of the American Economic Association was held at Detroit and Ann Arbor, Mich., on Thursday, Friday, and Saturday, December 27-29, 1900. The American Historical Association met at the same time and in the same cities, and the two associations held joint sessions on Thursday evening and Friday forenoon. The Friday sessions took place at Ann Arbor, where both associations were guests of the University of Michigan. The program announced for the American Economic Association's meeting was as follows :

### PROGRAM.

THURSDAY, DECEMBER 27.

*Morning Session, 10 a. m.*

(Hotel Cadillac, Detroit.)

#### THE TAXATION OF QUASI-PUBLIC CORPORATIONS.

Paper by FREDERIC C. HOWE, Cleveland, Ohio.

Paper by FREDERICK N. JUDSON, St. Louis, Mo.

Discussion : E. R. A. SELIGMAN, Columbia University, JAMES B.

DILL, New York City, ARTHUR J. EDDY, Chicago, WILLIAM

Z. RIPLEY, Massachusetts Institute of Technology, and others.

*Evening Session, 8 p. m.*

(Central Methodist Episcopal Church, Detroit.)

Joint session with the American Historical Association.

Address of Welcome by HON. WILLIAM C. MAYBURY, Mayor of Detroit.

Address by EDWARD EGGLESTON, President of the American Historical Association.

Address by RICHARD T. ELY, President of the American Economic Association.—Competition : its Nature, its Permanency and its Beneficence.

FRIDAY, DECEMBER 28.

*Morning Session, 10 a. m.*

(Sarah Caswell Angell Hall, Ann Arbor.)

Joint session with the American Historical Association: President Angell of the University of Michigan in the chair.

## HISTORY AND PROBLEMS OF COLONIZATION.

British and French Experiments with Representative Government in the West Indies. PAUL S. REINSCH, University of Wisconsin.

The Turning Points in the History of British Administration in India. H. MORSE STEPHENS, Cornell University.

Discussion: H. E. BOURNE, Western Reserve University, CLIVE DAY, Yale University.

The Finances of Porto Rico. J. H. HOLLANDER, Johns Hopkins University, Treasurer of Porto Rico.

Our Porto Rican Policy. JOHN H. FINLEY, Princeton University.

Discussion: CHARLES H. HULL, Cornell University, HENRY C. ADAMS, University of Michigan, and others.

*Afternoon Session, 2:30 p. m.*

(Sarah Caswell Angell Hall.)

## COMMERCIAL EDUCATION.

The Relation of the Universities to Commercial Education. EDMUND J. JAMES, University of Chicago.

The Study of Economic Geography. L. M. KEASBEY, Bryn Mawr College.

The Science of Accounts in Collegiate Commercial Education. CHARLES W. HASKINS, New York University.

Discussion: FRANK H. DIXON, Dartmouth College, WILLIAM A. SCOTT, University of Wisconsin, and others.

SATURDAY, DECEMBER 29.

*Morning Session, 10 a. m.*

(Hotel Cadillac, Detroit.)

Industrial and Pecuniary Occupations. THORSTEIN VEBLEN, University of Chicago.

The Next Decade in Economic Theory. FRANK A. FETTER, Leland Stanford Junior University.

Report of the Committee on Uniform Municipal Accounts and Statistics. M. N. BAKER, of *The Engineering News*, New York City, Chairman; H. B. GARDNER, Brown University; CHARLES J. BULLOCK, Williams College; EDWARD W. BEMIS, of the Bureau of

Economic Research ; E. DANA DURAND, Secretary of the U. S. Industrial Commission ; F. R. CLOW, Oshkosh Normal College.  
Discussion : ALLEN R. FOOTE and others.

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The paper by Mr. Hollander was not presented, as public duties detained its author in Porto Rico. The paper by Mr. Veblen, who was also unable to attend the meeting, was read by title only. It is printed, however, with the other papers and the remarks in discussion of them, in this volume.

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#### RESOLUTION OF THANKS.

On December 29, the following resolution was unanimously adopted in the general session of the Association :

*Resolved*, That this Association express its sincere thanks to the Mayor, the Press and the Citizens of Detroit, to Secretary and Mrs. Alger, to the University and Detroit Clubs, to the University of Michigan, and to the Local Committee of Arrangements for the very generous and courteous manner in which they have aided our scientific work, contributed to our social pleasure and ministered to our physical comfort, and made our brief sojourn here one always to be remembered with the keenest pleasure.

#### MEMBERS IN ATTENDANCE.

The following sixty-one members of the Association signed the register of the meeting. It is known that some others were in attendance, but no further record has been preserved : F. A. Fetter, F. M. Taylor, F. H. Dixon, G. R. Wicker, R. K. Kuczynski, B. H. Meyer, E. J. James, G. A. Kleene, Y. Mikami, E. D. Durand, Theodore Marburg, I. A. Loos, Grace L. Pitts, R. F. Sprague, E. A. Ross, F. L. McVey, U. G. Weatherly,

E. D. Jones, Arthur Yager, R. T. Ely, F. R. Rutter, R. Mayo-Smith, H. W. Farnam, C. A. Tuttle, J. R. Commons, Helen Page Bates, F. J. Goodnow, J. J. Hanshue, G. M. Fisk, M. B. Hammond, Jesse Macy, W. G. L. Taylor, H. B. Gardner, A. R. Foote, E. R. A. Seligman, A. E. Macomber, O. M. W. Sprague, C. W. Tooke, J. A. Fairlie, J. H. Gray, W. M. Burke, W. R. Patterson, W. A. Scott, R. C. Chapin, F. N. Judson, S. E. Baldwin, C. H. Hull, W. F. Willcox, C. H. Cooley, John Davis, W. A. Rawles, H. S. Person, J. D. Forrest, S. F. Weston, K. K. Kennan, C. A. Herrick, Isidor Loeb, D. R. Dewey, Francis Walker, J. B. Dill, L. M. Keasbey.

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#### COUNCIL MEETINGS.

A meeting of the Council was held Dec. 27, 1900, at 2:30 p. m., President Ely being in the chair. The report of the Secretary and Treasurer was read and accepted. It is as follows:

##### REPORT OF THE SECRETARY.

The secretary submits to the Council the following report for the year 1900. It mentions incidentally all action taken by the Executive Committee, and reviews the general state of the Association's finances. He suggests, therefore, that his detailed report as treasurer be referred to an auditing committee.

During the year the Association has lost eight members by death. Two of these were life members, and one an honorary member. In addition, twenty-two members have resigned, and fourteen have been dropped by the treasurer for non-payment of dues. On the other hand, three new life members and eighty-four

other members have joined the Association, and the list of subscribers to our Publications has increased by fourteen. The net result, counting together members and subscribers of all classes, is a total gain of fifty-seven.

The secretary earnestly renews the request made by his immediate predecessor in 1898<sup>1</sup>, that members of the Council actively interest themselves in adding to the Association's members. A growing membership means a growing income, and that, since our administrative expenses are relatively a fixed charge, an increasing return of efficiency.

At the Cleveland meeting in 1897, the council authorized the appointment of special committees on the reform of the currency and on the census.<sup>2</sup> The reports of these committees proved to be of such interest and value that the policy has been continued, and has this year borne further fruit in the publication of a substantial volume of "Essays in Colonial Finance,"<sup>3</sup> collected and edited by the special committee which reported upon that subject at the Twelfth Annual Meeting.<sup>4</sup> The printing of so bulky a number might have placed a strain upon our resources had it not been for the generosity of Messrs. William E. Dodge, Theodore Marburg, Isaac N. Seligman, Stuart Wood, and the late Thomas G. Shearman. At the solicitation of a member of the Publication Committee these gentlemen contributed the sum of one hundred and ninety-five dollars, or nearly two-fifths of the cost of the issue.

<sup>1</sup> Hand Book of the Twelfth Annual Meeting, p. 47.

<sup>2</sup> Hand Book, 1898, p. 51; Economic Studies, vol. iii, No. 1, Supplement.

<sup>3</sup> Publications of the American Economic Association, third series, vol. i, no. 3.

<sup>4</sup> Proceedings Twelfth Annual Meeting, pp. 283-288; Publications A. E. A., third series, vol. i, no. 1.

The Executive Committee has recently appointed a special committee on the economic condition of the American negro, as authorized at the last meeting.<sup>1</sup> It consists of Messrs. Walter F. Willcox (chairman), H. T. Newcomb, and W. Z. Ripley, who have been authorized, upon receiving the approval of the Executive Committee in each case, to add to their numbers. The committee on the economics of agriculture authorized at the same time has not yet been constituted.

The theory of these special committees, as the secretary understands it, is that the Association makes no attempt to impose the work of a committeeman upon any member, but wherever a sufficient and well-balanced group of members desires to take up some subject of investigation which promises results, the Council is inclined to give them its blessing, and the Publication Committee is likely to look with favor upon the proposal to print their report. Responsibility, however, rests in every case upon the special committee alone until its report is accepted. And if it be subsequently adopted for publication, the Association vouches for it as far, and no further, than for the works of other authors which it issues.

Acting upon some such principle as this, the Executive Committee, in the exercise of its constitutional authority, appointed, during the past year, a special committee on Uniform Municipal Accounts and Statistics, which will report at this meeting. The time seemed ripe for such a report, and it would have been delayed a year if the Executive Committee had waited to bring the matter before the Council. This special committee is composed of Messrs. M. N. Baker, of the *Engineering*

<sup>1</sup> Proceedings, p. 43.



*News*, (chairman), H. B. Gardner, Charles J. Bullock, Edward W. Bemis, E. Dana Durand and F. R. Clow.

In accordance with the resolutions of the Council passed 28th Dec., 1899,<sup>1</sup> the "Economic Studies," were discontinued upon the completion of their fourth volume, and a "third series" of quarterly octavo Publications was begun in February with the "Proceedings of the Twelfth Annual Meeting," which extended to two hundred and eighty-eight pages of amply varied character. This was followed by a historical study of the status of agricultural laborers, entitled "The End of Villainage in England." While economic history, such as this, has received but little consideration from the Association in recent years, the issue of Mr. Page's book has abundant precedent among our earlier publications and is altogether in harmony with our primary object, which the constitution declares to be "the encouragement of economic research, especially the historical and statistical study of the actual conditions of industrial life." The third number, comprising three hundred and three pages, was the "Essays in Colonial Finance," already mentioned. For the fourth number, due in November last, the Publication Committee accepted a history of "Currency and Banking in the Province of the Massachusetts Bay," so extensive that it appeared necessary, unless we were to swell this year's volume beyond all precedent, to plan for its issue in two parts, the first dealing with the bills of credit, the second with the banks. The first part was accordingly sent to press October eleventh. But before the author had been able to finish his first batch of proof he was called to Europe, and printing had to be suspended.

<sup>1</sup> Proceedings of the Twelfth Annual Meeting, p. 41-42.

He is now in this country again, and work of printing has been resumed.

On the thirtieth of January last, owing to a disagreement regarding the accounts which was explained in the secretary's report a year ago, the contract between the Association and the Macmillan Company for the sale of our Publications by them was terminated in accordance with the notice previously given the secretary by the Company.<sup>1</sup> Meanwhile the Company discovered in one of their warehouses, and subsequently sent to Ithaca, several boxes of our Publications. These approximately covered the shortage ascertained by the secretary's inventory of March, 1899, and accordingly the secretary, acting by authorization of the Executive Committee under the resolution of the Council, passed 28th December, 1899,<sup>2</sup> renewed the contract of agency with the Macmillan Company upon practically the same terms as before.

The Treasurer's detailed report will show an apparent improvement in the financial situation. The cash on hand two years ago of six hundred dollars. A year ago it was \$676. At present it is \$1,372. This change is due to several causes. On the one hand the receipts of the Association have increased: on the other its expenditures have diminished. But both the increased income and the decreased expenses are partly attributable to circumstances which must be regarded as exceptional and not likely to recur.

Owing to the collection by the treasurer of a number of back subscriptions in 1899,<sup>3</sup> the revenue from that source is slightly (about \$20) smaller this year than last,

<sup>1</sup> Papers and Proceedings of the Twelfth Annual Meeting, p. 40.

<sup>2</sup> *Ibid.*, p. 42.

<sup>3</sup> Hand Book Eleventh Meeting, p. 48.

although the subscription list itself is the largest that we have ever had. The net receipts from the Macmillan Company, likewise, show an apparent loss of \$276, as compared with last year. But that, while it reduces this year's actual receipts, is less discouraging than it appears, since the Company, in settling last January, deducted from the amount due the Association something over \$190 for binding and postage bills which had not been presented to the Association in previous years. Over one hundred and fifty dollars of those charges belonged to the year 1899. If they had been deducted from the amount paid the Association by the Macmillan Company in that year, our net receipts from the Company would have been under \$700. And in that case our net receipts from the same source this year would have been \$150 larger than they were, or about \$720. In other words, the Publications really sold as well this year as last, but certain items of the selling expenses for two years and a half past have been deducted from the proceeds of this year's sales. The items of receipts showing an improvement this year are: the annual dues (\$202 increase); life members' dues, which amounted to \$150, the first receipts of that kind since 1896; and the subsidy for the Colonial Report, \$195, to which nothing corresponded in 1899. Besides these we received this year \$63 from Messrs. Swan Sonnenschein & Co., with whom we had no settlement in 1899. As a net result, the income increased three hundred and eighty-one dollars. But it should be noted that the \$195 of subsidy is altogether extraordinary revenue, and the \$150 of life members' dues are not likely to be duplicated in 1901.

Both the administrative and publication expenses have decreased somewhat. The consolidation of the

secretary's and treasurer's offices has apparently affected a saving of over \$100. We have spent, thus far, but \$1,240 for this year's printing. But we have a fourth number still to pay for. The secretary estimates roughly that that will cost, in round numbers, \$750. If so, our printing bill will be over \$100 larger than last year's, and our cash balance, after this year's bills have been paid, will be about \$625, or but little larger than the cash balance two years ago. Experience has shown that a cash balance of less than \$1,200 at the close of the calendar year is insufficient to carry the Association through. And this year even the inadequate real balance of \$625 is due, to the extent of \$345, to receipts from exceptional sources. The secretary, therefore, urges that the printing expenses of the Association be reduced by the issue of less bulky numbers until stable equilibrium is restored in our finances. At present we print from 1,000 to 1,100 pages yearly. The amount should be reduced to 700 or 800.

Respectfully submitted,

[Signed]

CHARLES H. HULL,  
Secretary and Treasurer.

On motion the Council called upon its members to suggest each at least five candidates for membership in the Association.

The resignation of Mr. F. W. Taussig as a member and as Chairman of the Publication Committee was presented and accepted.

The appointment by the chair of a nominating committee of five, and of an auditing committee of two was ordered. The chair appointed as nominating committee, Messrs. H. B. Gardner, E. J. James, W. A. Scott, J. H. Gray, and H. W. Farnam, and as auditing committee,

Messrs. R. Mayo-Smith, and W. F. Willcox. The Council then adjourned until 9 a. m., on Saturday.

Saturday, Dec. 29, the Council met pursuant to adjournment, President Ely in the chair.

The auditing committee reported that they had examined the Treasurer's accounts and had found them correct, and had signed his book. On motion this report was received and accepted.

#### SUMMARY OF THE TREASURER'S REPORT, 1900.

CHARLES H. HULL, Treasurer,

*In account with the American Economic Association  
for the year ending December 24, 1900.*

##### Debits.

Cash on hand, as per last report.....	\$ 675 56
Sales and subscriptions,	
The Macmillan Company.....	\$572 79
Swan Sonnenschein & Co.....	62 87
Charles H. Hull, Treasurer.....	336 74
	<hr/>
	972 40
Reprints .....	37 27
Subsidy for Colonial Report.....	195 00
3 life members' dues .....	150 00
523½ annual dues.....	1,570 50

##### Credits.

Publication expenses.....	\$1,701 15
Expenses of President's office.....	21 00
Expenses of Publication Committee...	20 00
Expenses of Sec'y and Treasurer's office	435 07
Expenses of Twelfth Annual Meeting..	50 70
Cash in bank.....	1,360 26
Cash on hand .....	12 55

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\$3,600 73    \$3,600 73

Examined and found correct,

Dec. 27, 1900.

[Signed]

R. MAYO-SMITH,  
W. F. WILLCOX.

The nominating\* committee reported recommending the election of the following list of officers for the ensuing year: President, Richard T. Ely; Vice-Presi-

dents, Theodore Marburg, Frederick M. Taylor, and John C. Schwab; Secretary and Treasurer, Charles H. Hull; Publication Committee, Frederick M. Taylor and Thomas N. Carver to be members, and Sidney Sherwood, at present a member, to be chairman. The committee also recommended the re-election of those members of the Council whose terms expire January 1, 1902, and the election of the following additional members: R. C. Chapin, F. J. Goodnow, E. D. Jones, G. A. Kleene, Isidor Loeb, T. K. Urdahl, and G. R. Wicker, to serve until January 1, 1903; Simon Newcomb, F. W. Sanders, M. R. Smith, Graham Taylor, W. G. L. Taylor, C. W. Tooke, and D. C. Wells, to serve until January 1, 1903; F. C. Howe, W. R. Patterson, J. E. Pope, W. A. Rawles, O. M. W. Sprague, U. G. Weatherly, and W. F. Willoughby, to serve until January 1, 1904.

The Secretary was instructed to cast a ballot on behalf of the Association for the foregoing nominees, and he did so, whereupon they were declared elected.

On motion the time and place of the next meeting were referred to the Executive Committee, with power.

Messrs. R. Mayo-Smith, J. H. Gray and E. R. A. Seligman were appointed a committee to draft a resolution of thanks<sup>1</sup> and present it in the session of the Association, and the Council adjourned without day.

<sup>1</sup> See p. 45.

## PAPERS AND DISCUSSIONS.

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### COMPETITION: ITS NATURE, ITS PERMANENCY, AND ITS BENEFICENCE.

BY PRESIDENT RICHARD T. ELY, LL.D.

A strange contrast is afforded by the various utterances of popular economic literature touching the subject of competition. The following quotation furnishes us with a forceful expression of opinion adverse to competition and may be taken as typical of views held by a class of sincere, enthusiastic champions of social reform.

"Competition is not law but lawlessness. Carried to its logical outcome it is anarchy or the absence of law. Man is a moral, spiritual, and social being, not dominated by animal law. There can be no such thing as a harmonized society with any competitive elements in it, and Christianity is impossible. Every man owes the world his life, and must live to have a life to give. In competitive conditions not character but cunning survives. The gospel of success is the great insanity of modern materialism, absorbing the best brain, thought and life of the race; we have been feeding our children to this great Moloch of success, but as a result we have been warping the intellect and making moral idiots.

"We are coming to a higher evolution, in which the law of mutual service shall be the law of life. Any attempt to build society on a competitive foundation is fundamentally anarchical. The idea of brotherhood



has come to stay and will not back down at the bidding of politicians, monopolists or theologians. The years behind us are but a getting together of human material in a divine effort of perfected humanity. Democracy must be applied to reorganizing the machinery of the world."<sup>1</sup>

Now let us put over against this utterance a clear-cut expression of opinion as favorable to competition as the words we have just used are unfavorable to this manifestation of social force in our economic life.

"Competition was the gigantic motor that caused nearly everybody during the first nineteen centuries of Christian civilization to use all his mental and physical powers to get ahead. The best efforts of humanity, stimulated by competition . . . have lifted our race to a standard where the mode of living of common laborers is more comfortable and desirable than the every-day existence of the kings of whom Homer sings."<sup>2</sup>

Once again listen to this vigorous outburst in denunciation of competition, written some fifty years ago by a distinguished leader of Christian Socialism in England: "Sweet competition! Heavenly maid! . . . Now-a-days hymned alike by penny-a-liners and philosophers as the ground of all society . . . the only real preserver of the earth! Why not of Heaven, too? Perhaps there is competition among the angels, and Gabriel and Raphael have won their rank by doing the maximum of worship on the minimum of grace. We shall know some day. In the meanwhile, 'these are thy works, thou parent of all good!' Man eating man, man eaten by man, in every variety of degree and method! Why does not some en-

<sup>1</sup> *Cleveland Citizen*, March 14, 1896. Attributed to George D. Herron.

<sup>2</sup> Richard Michaelis in *Looking Further Forward*, pp. v and 85.



thusiastic political economist write an epic on 'The Consecration of Cannibalism'?"<sup>1</sup>

On the other hand listen to these words by a sturdy American whose courage in denunciation of wrong in high places no one can rightly impugn:

"The competition of economics is not the so-called competition of our great centers where men strive to drive men to the wall, but the competition which leaves each in full possession of that productive power which best unites his labor with the labor of others. Competition is no more trespass than it is theft. It is the reconciliation of men in those productive processes which issue in the largest aggregate of wealth. It is not crowding men off their feet, but a means of planting them upon their feet."<sup>2</sup>

These quotations could be multiplied indefinitely on the one side and on the other. We find it asserted on the one hand that competition is sinful warfare; that it is "division, disunion, every man for himself, every man against his brother";<sup>3</sup> on the other hand that it is mutual service; that it is altruism of a superior quality; that it is the essence of the golden rule; that it is loving our neighbor as ourselves—in other words, that a correct rendering of Christian love is competition.<sup>4</sup>

Apparently such contradictory views admit of no reconciliation. But when we think seriously about the matter, we are forced to ask ourselves the question: how is it possible that men of undoubted capacity, of unquestioned sincerity, of warm enthusiasm for humanity, can hold views respecting competition, this

<sup>1</sup> Charles Kingsley in *Cheap Clothes and Nasty*, printed with Alton Locke, vol. i, pp. 82-3.

<sup>2</sup> John Bascom on The Moral Discipline of Business. *The Kingdom*, Minneapolis, May, 1896.

<sup>3</sup> Kingsley, l. c., p. 104.

<sup>4</sup> Edward Atkinson on Coöperative Competition. *The New World*, September, 1895.

great corner-stone of our economic order, so diametrically opposed that what the one cordially hates the other ardently admires as a source of abundance for all the deserving children of men? May it not be that, after all, these disputants are talking about somewhat different things and that what is needed first of all is definition?

What precisely do we have in mind when we discuss competition? Competition, in a large sense, means a struggle of conflicting interests. If we open our dictionaries and read the definitions there given, we shall find something like this in each one of them: "The act of seeking or endeavoring to gain what another is endeavoring to gain at the same time; common contest or striving for the same object; strife for superiority; rivalry." (Century Dictionary.)

Professor Gide uses these words to tell us what he understands by competition in this large sense "When each individual in a country is at liberty to take the action he considers the most advantageous for himself, whether as regards the choice of an employment or the disposal of his goods, we are living under the régime of competition."<sup>1</sup>

But we do not have enough precision in these definitions to answer our purposes. Economic competition, it is true, is a struggle of conflicting interests for valuable things, for what we call in its widest sense wealth. But is all struggle for wealth, competition? If I knock you down with a sand-bag and rob you, is that to be called competition? If I fit out an armed ship and prey upon the commerce of the world, is that competition? If I cheat you by a lie, are the lie and the fraud part of the competitive process? The reply

<sup>1</sup> Principles of Political Economy, by Charles Gide, transl. by E. P. Jacobsen. 1892. P. 64.

comes naturally, "No, you are now talking about criminal and wrong action."

But if it is not every struggle of conflicting interests that is to be denominated competition, we see at once that competition is a struggle which has its metes and bounds. I think we must say that the competitive struggle is limited by constitutional and statute law. It is a struggle whose boundaries are fixed by the social order within the framework of which we live and move and exercise our faculties in the pursuit of a livelihood. When we bear this qualification in mind, simple and obvious as it is, many difficulties begin to vanish like fog before the rising sun. Many a man, when competition is mentioned, thinks of wild beasts, tearing and rending each other in a death struggle for an insufficient supply of food. But such is only an incomplete and imperfect picture of the struggle for life, even among the brutes, and does not at all describe the struggle of competition among civilized men.

But even when we call to mind the limitations placed upon the struggle of conflicting economic interests by the social order, we do not yet have a sufficient idea of economic competition. It is essential that we add another element to our idea, in order to render it more nearly conformable to reality. We must bring to mind the great principle of evolution which is present wherever there is life. Nothing could well be more unscientific in the present age of science than to leave evolution out of account in our examination of anything so fundamental in society as competition. What light, then, does the principle of evolution throw upon competition?

The struggle for existence among the lower animals has become a commonplace of modern scientific thought,

and equally familiar are the selective processes of nature, resulting in the survival of those fittest for their environment at a particular time and place. Not quite so familiar to all are other aspects of nature's methods. After the appearance of Darwin's epoch-making book, "The Origin of Species," biologists first brought out the hard and cruel side of the struggle for existence. Rousseau's pictures of mild and beneficent Nature were replaced in their descriptions by the conception of Nature as "red in tooth and claw with ravin." Even Huxley spoke of the animal world as on about the same level as a gladiator's show. "The creatures", said he "are fairly well treated and set to fight; whereby the strongest, the swiftest, the cunningest, live to fight another day. The spectator has no need to turn his thumb down, as no quarter is given."<sup>1</sup> But it was not long before careful observation revealed other aspects of nature's processes. Mr. Alfred Russel Wallace long ago called attention to the comparatively painless character of the struggle among animals, and to the large amount of happiness in their lives. After reviewing the ethical aspect of the struggle for existence, he expressed the opinion that it affords "the maximum of life and of the enjoyment of life with the minimum of suffering and pain."<sup>2</sup> When we watch animal existences as a whole, and not in exceptional moments, can we conclude otherwise? But subsequent observers, going further, have called attention first to the fact that the struggle is not for life merely, but for the life of others. These others are first of all offspring, but later mates and companions. Again, attention has been called to association and mutual aid among animals as

<sup>1</sup> The Struggle for Existence. *Nineteenth Century*, February, 1888.

<sup>2</sup> Darwinism, p. 40.

part of the struggle for existence, and we have come to see that co-operation and the ability to co-operate are powerful weapons, even in the competitive sub-human struggle for existence.<sup>1</sup>

We must hasten on to the point where, as a result of organic evolution, we have the emergence of man. Among primitive men competition seems at first to take on more cruel forms than among animals. But if evolution has apparently gone back a few steps, it is only to move forward mightily and unceasingly as social evolution for the achievement of ends whose grandeur we as yet but faintly apprehend. Competition, begun far below man with the very beginnings of life, persists as one of the most fundamental laws of animate existence, but evolution carries it to higher and ever higher planes. Primitive competition includes a narrow circle of association and, beyond that, slaughter for economic advantage. With social evolution slaughter gradually recedes into the background and falls below competition into the region of crime. When men considered it dishonorable to gain by the sweat of the brow what could be won by the sword, battle belonged to economic competition; not so in the age of industry. From early times, and until recently, the competitive social order found within its frame-work a place for slavery; but as a result of social evolution, continued for ages, slavery falls below the plane of competition and is now regarded as incompatible with civilization. Piracy, until a comparatively recent period of the world's history, held an honorable place within the

<sup>1</sup> Consult the series of articles on Mutual Aid by P. Kropotkin in *The Nineteenth Century*, September and November 1890, April, 1891, and January, 1892, August and September, 1894, January and June, 1896.

competitive processes whereby men secured economic gain; but that in turn has fallen outside of and below the social order of competition.

But since the beginning of this century, along with the persistence and increasing intensity of competition, elevation of the plane of competition has kept pace with the rapidity of social evolution. The labor of very young children has been outlawed; the labor, even of grown men, has in many cases been restricted, and unwholesome conditions and oppressive practices in numberless instances have been put below the plane of competition. We need not retrace this familiar ground. A former president of this Association, in one of its early publications<sup>1</sup> declared that one of the functions of government is to raise the ethical level of competition. He was himself surprised to find the impression that the phrase produced. It produced that profound impression precisely because it is so pregnant with meaning. The phrase is a key, opening mysteries and revealing reconciliations of science and humanity.

We have already mentioned the fact of association among animals for mutual aid. Social evolution among men reveals growing association along with competition. One essential feature of social evolution, in its bearing on competition, is the enlargement of the associated competitive group. Here again the temptation to trespass upon your patience is strong, but it must be resisted. Many an address could be occupied entirely with a discussion of the grouping of men within the competitive social order. Thus we early find voluntary,

<sup>1</sup> Henry C. Adams, *The Relation of the State to Industrial Action*. Publications of the American Economic Association, vol. i, no. 6, January, 1887, pp. 507-508.

loosely formed groups of employers pursuing common purposes; and also groups of workingmen likewise seeking to promote common interests. Again we notice a permanent organization of labor on the one hand and of capital on the other. Then we discover political associations embracing within themselves an infinite variety of competitive groups; and these political associations themselves having competitive features extend from the small hamlet to the mighty nation. But competition does not stand alone. With it are associated sympathy, benevolence, and public authority. Moreover, wisely directed humanitarianism strengthens each group, while ruthless selfishness among the members of the group gradually destroys power in competition. The larger the competitive group, the wider becomes the sphere for generosity, the larger the safe scope of pity, and the milder may the competition become for the individual. Witness how the progress of modern nations in philanthropy attends growing efficiency in their economic struggles. International competition is a stern fact of our time. Is it not equally a fact that the most potent nations in this great dramatic world-wide struggle of interests are precisely those nations in which we find the highest individual and social development of altruism? Association and coöperation, the healing touch, benevolence, love, are all compatible with competition.

Fear has sometimes been expressed lest the humanitarian side of social evolution should lead to weakness and degeneration, and the world be converted into Goethe's vast hospital. Such apprehension, I believe, does not rest upon a critical analysis of the forces at work in modern civilization. It is true that benevolence, manifested in and through progress, may keep alive some weak individuals, who in a harsher age



would have perished, and that these weak individuals may take part in the propagation of the species, eventually leaving behind an enfeebled progeny. But with all its mildness, civilization lessens unfit reproduction, and, upon the whole, does so to an ever-increasing extent. It puts the feeble-minded in asylums, and discourages the marriage of paupers; while in its new attitude towards the criminal classes it shows an increasing inclination to detain them until it receives evidence that their malady is cured. Moreover, by sanitation and other measures, modern civilization increases the strength and vigor of those who do survive. Comparisons of civilized men with savages and with semi-civilized peoples, reveal the superiority of the former in physical vigor. It is probable that never in the world's history have there been men and women whose average of efficient strength in the economic sphere was so great as that of the men and women who today inhabit Germany, England, and the United States of America.

Competition is the chief selective process in modern economic society, and through it we have the survival of the fit. But what do we mean by "the fit"? We all know today that fitness has reference simply to conditions of a particular time and place. Bold and aggressive pirates were at one time fit for survival, but now they are likely to come to an untimely and ignominious end. Modern society itself establishes, consciously or unconsciously, many of the conditions of the struggle for existence, and it is for society to create such economic conditions that only desirable social qualities shall constitute eminent fitness for survival. A kind of society is possible, in which the beggar has this fitness, while the conditions in another society may be most unfavorable to the growth of parasitical classes.

The socially established competitive methods and the



socially established ends to be attained by competition determine the kind of men who will survive in competition. Let me offer an illustration. To-day the civil service of the modern nation furnishes an opportunity for a livelihood to a considerable percentage of the population. Competition for admission to the civil service in order thereby to secure a support is found when we have the so-called spoils system, and the competition is intense and frequently bitter. This competitive contest issues in the survival of men with qualities known to us all. Civil service reform does not remove competition; on the contrary it extends competition, but the difference in methods produces corresponding differences in results. On the one hand, the extension of competition lessens bitterness, because it is more in consonance with our ethical demand for equality of opportunity, and the difference in competitive tests for success, issues in the survival of men with qualities of another sort from those which come to the top under the spoils system, and with qualities, most of us will say, of a higher kind.

Competition increasingly comes to mean worthy struggle, and true progress implies that success will be secured hereafter by conformity to higher and ever higher, nobler and ever nobler ideas.

Mr. Alfred Russel Wallace and Professor Lester F. Ward have called attention to the superiority of man's selection to nature's selection. Professor Ward has thus expressed the idea: "The economics of nature consists, therefore, essentially in the operation of the law of competition in its purest form. The prevailing idea, however, that it is the fittest possible that survive in this struggle is wholly false. The effect of competition is to prevent any form from attaining its maximum development, and to maintain a comparatively low

level for all forms that succeed in surviving. This is made clear by the fact that wherever competition is wholly removed, as through the agency of man, in the interest of any one form, that form immediately begins to make great strides and soon outstrips all those that depend upon competition. Such has been the case with all the cereals and fruit trees; it is the case with domestic cattle and sheep, with horses, dogs, and all the forms of life that man has excepted from the biologic law and subjected to the law of mind, and both the agricultural and the pastoral stages of society rest upon the successful resistance which rational man has offered to the law of nature in these departments. So that we have now to add to the waste of competition its influence in preventing the really fittest from surviving."<sup>1</sup>

While in general we must agree with Professor Ward, I do not think that the process which he describes is to be called the suppression of competition, but rather a regulation of competition by the mind of man. It means the establishment of the environment and the selection of the plants and animals for survival in the pre-arranged environment.

If the foregoing considerations are possessed of validity, we can readily see one of the tests to which we must submit proposed measures of social amelioration. A good social measure must strengthen the individual and the group for competition. On the other hand, the test of a bad condition is that it weakens individuals and groups, in the competitive struggle. Let me offer a single illustration.

In New York City a Tenement House Commission has been investigating the housing of the poorer classes in that city. Dr. Edward T. Devine, Secretary of the

<sup>1</sup> *Outlines of Sociology*, pp. 257-8.

Charity Organization Society of New York, testified before the Commission as follows: "There is much destitution directly due to overcrowding, to the lack of light and air, and to infected walls, ceilings and floors. The experience of the agents and visitors of the Charity Organization Society confirms what physicians have said in regard to the danger from tuberculosis and other diseases. The chances of recovery are much less because of the lack of vitality due to the unfavorable physical conditions under which the people are obliged to live."<sup>1</sup> Here our test reveals a thoroughly bad competitive condition. But, on the other hand, Dr. Devine stated that, "While the commission might not be able to devise laws that would directly lower rents, it would be possible to provide for greater decency and comfort, and for more of the conditions that make for life and health, without necessarily increasing rents."<sup>2</sup> We see in this last suggestion conformity to the tests of a desirable measure of social reform.

If our analysis is correct, it clearly follows that competition is a permanent feature of human society. It begins with the lowest orders of animals and continues its action among the highest orders of men. But it continually mounts to higher and higher elevations, and means rivalry for ever better and better things. We leave behind contests for bare subsistence to engage in contests for noble prizes of the mind and for opportunities for social service.

We can, then, never allow competition to cease. Combinations of labor and combinations of capital may expand freely, so long as these combinations mean merely association and co-operation. But when combinations

<sup>1</sup> *Charities*, the official organ of the Charity Organization Society of New York, December 1, 1900, p. 18.

<sup>2</sup> *Ibid.*, p. 19.

mean monopoly, either competition must be restored or, where this is impossible, the ends of competition must be secured by other methods of social control; and if these methods of social control in some cases mean public ownership and management of industries, a place must be opened for the competitive principle in the terms of admission to public employment.

It is at this point important to make a distinction too often overlooked; namely, the radical difference between that socialistic extension of governmental activity which has in view the suppression of competition, and that conservative demand for an extension of governmental activity which has in view the maintenance of competition. There are certain conditions of success in competition which many economists believe cannot be supplied individually, but must be furnished by collective action. Irrigation offers an illustration. It appears to be the general opinion of careful students of irrigation, that the laws of private property applied to water used for purposes of irrigation, ultimately produce cessation of competition; in other words, monopoly; and that as a condition of permanent and wholesome competition along with associated efforts, large public activity is required in the supply of water. A recent writer uses these words, and as I understand it, he simply voices the consensus of opinion among experts. "In the vast majority of instances, and over the larger portion of the arid region, costly works will be required, and these can only be supplied by some form of public enterprise. The dividends upon the investment must be looked for, not in the strong boxes of security-holders, but in the increase of national wealth, in social progress and in economic gains."<sup>1</sup> If this statement is correct, we who

<sup>1</sup> William E. Smythe on *The Struggle for Water in the West*. *Atlantic Monthly*, November, 1900.

believe in competition must, in order to secure the conditions of its maintenance, ask for larger governmental activity in matters of irrigation.

I regret that I can do no more here and now than merely to allude to two somewhat antagonistic lines of evolution. One is the movement which approaches—without hope of ever reaching—real equality of opportunities in economic competition. This is one of the most powerful movements of the century just drawing to a close and must be borne clearly in mind by any one who would understand the great historical movements of that century. The other line of development is found in the construction of great institutions which shut in and limit competition, but which nevertheless are the very foundations upon which our civilization rests; the institutions which may be likened to social savings banks or depositories of race-achievements. I have here in mind the great economic-juridical institutions of society, such as private property, inheritance of property and vested interests. The progressive approximation to equality in opportunities must not be permitted to go so far as to undermine these institutions. In the mutual adjustments of these two lines of evolution, namely, the equality of opportunity movement and the institutional movements, we have given us one of the weightiest and at the same time most delicate tasks of the twentieth century.

Competition thus conceived is beneficent, and the competitive order rightly controlled by society furnishes to men the maximum of pleasure with a minimum of pain. Not only does it insure progress for the race, but to an increasing extent all men participate in the benefits of this progress. We have no evidence that the competitive order is ultra-rational, and still less need we believe that it is anti-rational, as Mr. Kidd asserts,

inasmuch as in his view it is opposed to the interests of the great mass of men who, he thinks, quietly submit to this social order, on account of the social force in religion which bids them do so. Religion has quite a different office to perform, for its office is rather to raise competition to higher planes and to mingle with it in a harmonious blend, sympathy and love, without by any means displacing competition itself.

Competition gives us a brave, strong race of men, and the brave and strong are merciful.

It has been well said that as organic evolution gives us man, so social evolution gives the ideal man.<sup>1</sup> But economic competition is an essential constituent of that social evolution which is producing the ideal man; and with competition are mingled other regulative principles. Psychologically, the ego and the alter ego, self and other self, arise together; economically they engage in many a conflict, but their spheres of interest are never entirely antagonistic to each other in the struggle for life. The ego—the self—enlarges the sphere of its selfhood; and this widening and deepening goes on until the Christian ideal of humanity is at last attained.

But the upward struggle is part and parcel of the attainment of ideals; and, rightly conceived, elevated to a sufficient height, this struggle in economic life means competition; it means rivalry in the service of self and other selves—rivalry in the upbuilding of the ideal man in the ideal society.

<sup>1</sup> Joseph Le Conte on The Effect of the Theory of Evolution on Education. Proceedings of the National Educational Association, 1895.

## THE TAXATION OF QUASI-PUBLIC CORPORATIONS.

BY FREDERIC C. HOWE.

It is not necessary to speak here of the unsatisfactory condition of the science of taxation in so far as it relates to the class of property we are to consider this morning, for in no branch of the subject is there more confusion than in the taxation of quasi-public corporations. And the problem as presented to us is primarily one of jurisprudence. Those economic and social considerations which should govern the determination of such a question have become of necessity subordinate to our fundamental law. This is traceable to the dual nature of our government. There is a conflict of sovereignty, growing out of the restraints placed upon the states by the federal constitution. The right conferred upon congress to regulate commerce among the several states has caused the federal courts to view with jealousy any attempt on the part of the states to tax quasi-public corporations engaged in interstate commerce.

As a consequence, our local taxing systems have become patchwork creations owing to the shifts to which the states had been put to conform to the decisions of the courts. This cause, as much as any other, is responsible for the lack of uniformity which characterizes state legislation on this subject.

The problem has been further complicated by like restraints on the taxation of United States securities, franchises of United States corporations, patent rights and the like. Similar difficulties have arisen over the efforts to tax evidences of property which have a legal



status in one state, but which represent property actually taxed elsewhere.

It will be my purpose to consider, first, some of the the enactments and experiments of the individual states ; second, the legal aspects of the subject in order that we may know the practical limitations under which we labor ; and third, to construct, if possible, from the experiences of our commonwealths a method by which constitutional difficulties may be avoided and substantial justice obtained.

#### SOME OF THE METHODS EMPLOYED IN THE TAXATION OF QUASI-PUBLIC CORPORATIONS.

In a rough sort of a way, the efforts of our states in the taxation of quasi-public corporations may be divided into four general divisions.

##### I. TAXATION UNDER THE GENERAL PROPERTY TAX BY INVENTORY AND APPRAISAL.

Originally, this method was well nigh universal. It is but an extension or survival of the general property tax. From the standpoint of jurisprudence, no objection can be raised to this method of taxation. The federal courts have repeatedly held that a state might tax corporations engaged in interstate traffic upon their property in any way it saw fit. It is not so satisfactory, however, on other grounds. As was said in a celebrated report on the subject, it is "open to almost every conceivable objection".

This method still survives in a large number of states, of which Ohio may be taken as a type. Like most of the western and southern states, Ohio clings most persistently to the general property tax in all its details. This is due partly to constitutional reasons,



partly to inertia, and partly to other causes. As applied to railways, appraisal consists of an inventory of the physical property, which is obtained just as is the value of anything else, by enumerating and valuing real estate, right of way, rails, rolling stock, equipment and money on hand. Valuations are made by the individual county auditors, but are subject to revision by a state board. As applied to such property, the method is primitive in the extreme. It is a survival from an age when all property was open, tangible and easily assessable, an age when wealth was simple in its forms. But it is objectionable on many grounds. In the first place, it does not appraise a corporation as a going concern. The plant, be it a railroad, telephone or gas company is reduced to its constituent elements. It does not view the plant as a unit and ignores the valuation of the commercial world. The plan is open to the further objection that it lacks uniformity. It takes no account of ability to pay or cost of construction. A corporation of low earning power may be placed on the tax duplicate on the same basis as one of high earning power. It is, hence, unfair as between different properties. Further than this, appraisal is usually made by officials ignorant of railway values, with only a local knowledge, and susceptible of influence from the many political forces which such corporations control.

As indicative of the results of this method in Ohio, an examination of the assessment and gross earnings of six railroad systems taken at random and lying wholly within the state, shows for the years 1885, 1890, and 1896, as follows:

	1885.	1890.	1896.
Gross earnings, ---	\$4,498,423	\$ 6,097,131	\$10,266,465
Assessments, -----	8,944,386	10,165,174	10,000,328

While the earnings have increased 100 per cent., the

assessment has increased but little over eleven per cent. The Ohio Tax Commission, which reported in 1893, asserted that the valuation of railways for taxation was probably not more than from twenty-five to thirty per cent. of the true market value of such properties, an estimate obtained by capitalizing the net earnings of the roads at six per cent.

According to the same authority, it was found that the taxes were most unequal as between the companies, the burdens ranging all the way from 5.16 % of the *net* earnings of some roads to 17.94 % of the *net* earnings of others, the average rate being from six to eight per cent. And the same report further asserts that real estate in the city of Cleveland was burdened all the way from sixteen to twenty-five per cent. of its *gross* rentals.<sup>1</sup>

In 1899, the total railroad mileage in the state was 8,390 miles, valued at \$106,487,590, a valuation of \$12,692 per mile. This sum includes road bed, right of way, rolling stock and all other personalty.

## II. TAXATION OF COMMERCE: ON FREIGHT, PASSENGERS OR GROSS RECEIPTS.

In defining the limitations of the Federal Constitution upon the powers of the states in the matter of taxation, Justice Bradley, in the case of *Leloup vs. Mobile*,<sup>2</sup> said:

"The fairest and most just construction of the constitution leads to the conclusion that no state has a right to lay a tax on interstate commerce in any form, whether by way of duties laid on the transportation of the subjects of that commerce, or on the receipts derived from the transportation, or on the occupation or business of carrying it on, and the reason is that such taxation is a

<sup>1</sup> Report of the Tax Commission of Ohio, pp. 55, 56, 59.

<sup>2</sup> 127 U. S. 640.

burden on the commerce and amounts to a regulation of it which belongs solely to Congress."

However explicit the limitations may be, their application has been fraught with much trouble, and the Supreme Court itself has not escaped difficulty in hewing straight to the line established, or in reconciling its own utterances.

(a) *Taxes on Freight.*

The conflict of state legislation with the Federal judiciary over the taxation of transportation companies on some other basis than the general property tax began in the early seventies. The celebrated State Freight Tax case<sup>1</sup> involved an attempt on the part of the State of Pennsylvania to tax tonnage carried by railroads, steamboats and canals at a specific tax of from two to five cents a ton for freight carried. The tax was made applicable to all traffic carried over, through and into the state, as if the whole of the respective railroad lines were in the state. But the court held that this was a regulation of commerce and repugnant to the constitution of the United States.<sup>2</sup>

(b) *Taxes on Passengers.*

At one time it was questioned by the Supreme Court<sup>3</sup> whether the transportation of passengers was commerce, but later decisions<sup>4</sup> have settled that it is, and the Pullman Car cases have confirmed it. Hence any tax imposed upon passengers or persons coming into or out of

<sup>1</sup> 15 Wallace, 232.

<sup>2</sup> In *Brown vs. Maryland*, 12 Wheaton, 419, Chief Justice Marshall anticipated the later attempts on the part of the states to tax interstate traffic.

<sup>3</sup> *Crandell vs. Nevada*, 6 Wall. 35.

<sup>4</sup> *Hall vs. DeCuir*, 95 U. S. 485.

a state, or passing through it, or going from state to state is invalid.

(c) *Taxation of the means by which Commerce is carried on.*

Like taxes upon passengers or tonnage, a duty upon messages as such transmitted beyond a state line by a telegraph company,<sup>1</sup> or on the receiving and landing of express or freight in one state from another state<sup>2</sup> are restraints upon commerce and hence illegal.

(d) *Taxes on gross receipts.*

In the consideration of this tax, a distinction is to be made between receipts from traffic within and without the state. As to the power of a state to tax the latter, it is doubtful if the decisions of the courts can be reconciled.

In a case decided at the same term of court as the tonnage tax case, above, being State tax on railway gross receipts<sup>3</sup> the United States Supreme Court apparently retreated from its earlier position, and held that a tax upon the gross receipts of a railroad company, even though the earnings were made up in part from freight received for transportation from one state to another, was not a regulation of interstate commerce. But this decision was explained on the ground that the receipts had lost their character as receipts, and had become merged into the company's property. Moreover, it was held that the tax might be viewed as levied on the franchise of the company created by the state taxing it, and that there was no reason why the

<sup>1</sup> *Telegraph Company vs. Texas*, 105 U. S. 460.

<sup>2</sup> *Perry Company vs. Pennsylvania*, 114 U. S. 196.

<sup>3</sup> 15 Wallace, 28.

value of this franchise should not be measured by the gross receipts as well as any other method.<sup>1</sup>

The latter reason is adopted by the same court in the more recent case of *Maine vs. Grand Trunk Railway*,<sup>2</sup> where it was held that an annual tax on a Canadian corporation doing business in the state of Maine, which tax was to be determined by the amount of gross receipts, was valid. And it was further held that the tax was not invalid when applied to a corporation partly within and partly without the state, the tax being proportioned to the mileage within the state. The court held that it was an excise tax for the privilege of exercising the franchise within the state and not a tax on the receipts *as* receipts. Four judges, however, dissented to the majority opinion.

In *Railroad Company vs. Pennsylvania*<sup>3</sup> a tax on the tolls of a foreign corporation for the use of its railroad tracks was held not to be a tax on commerce, and *Maine vs. Grand Trunk Railway* was cited with approval.

On the other hand, we find that in *Fargo vs. Michigan*<sup>4</sup> a tax upon the gross receipts of a New York express corporation, doing business in Michigan, for the carriage of freights into, out of or through the state was invalid. This case is to be distinguished from the

<sup>1</sup> The reasoning in this case as well as in *Maine vs. Grand Trunk Railway*, is apparently in direct conflict with *Ratterman vs. Western Union Telegraph Company*, 127 U. S. 411, and *Western Union Telegraph Company vs. Alabama*, 132 U. S. 473. In the former case, a *direct* tax was imposed on the gross receipts of a telegraph company received from state and interstate traffic and was held invalid as to the latter source. The latter case was similar in character and was held to be a regulation of commerce. And no attempt is made to reconcile either with State Tax on Railway Gross Receipts.

<sup>2</sup> 142 U. S. 217.

<sup>3</sup> 158 U. S. 431.

<sup>4</sup> 121 U. S. 230.

previous ones in that the tax was levied upon gross receipts of the company specifically as receipts.

In *Railway Company vs. Pennsylvania*,<sup>1</sup> a tax in terms upon the gross receipts of a steamship company derived from transportation between different states was held to be a regulation of interstate and foreign commerce and invalid.

From these and other decisions, it would seem to be possible to draw the following distinctions:

1. That a tax upon gross receipts *as* receipts from interstate business is invalid.

2. That a tax upon tonnage, freight or passengers carried from state to state or through one state into another is invalid.

3. That a tax levied upon receipts from business done or commerce carried wholly within the state is valid.

4. That a tax upon a domestic corporation as a *franchise* tax, the earnings being adopted as a means of ascertaining the value of the franchise; or a license upon a foreign corporation for the *privilege* of doing business in the state, even when levied on the gross earnings, is valid.

5. That a tax upon gross receipts after they have lost their character as interstate receipts and become merged into and part of the corporate property is valid.

Taxation through receipts is found in some form or other in many states. It was an easy escape from the inadequacy of the general property tax. But it is seldom imposed at a rate in excess of two or three per cent. and frequently at a rate of less than one per cent. It is not infrequently found as supplementary to other taxes. It is seldom collected from receipts from interstate business,

<sup>1</sup> 122 U. S. 326.

even when imposed upon them, which business is rapidly becoming the principal item of carriage.

But the method is objectionable from the fact that the rate is purely arbitrary. It bears no necessary relation to other taxes, and is but a rough sort of conjecture on the part of the legislature as to what the property should bear.

Moreover, the receipts tax lacks uniformity as between the same classes of corporations. It neglects cost of operation, which in one case may be very high owing to heavy gradients, etc., and in another very low by virtue of superior road bed, etc. It also fails to take into consideration the physical condition of the property. Such a tax, however, may perform a service where used to supplement other rates, or as a franchise tax in the case of purely local corporations.

### III. LICENSE TAXES.

A number of states have attempted to reach corporations of this class by the license tax, levied either as an arbitrary amount, or proportioned to the business transacted. This plan, when imposed upon foreign corporations engaged in interstate commerce, has had much the same fate as the receipts tax, for it has been held unconstitutional in that such a license affects the entire business, inter-state as well as local.<sup>1</sup> However, a license upon a telegraph company declared in the act to be a license upon business done exclusively within a city or state has been upheld.<sup>2</sup>

<sup>1</sup> *Leloup v. Mobile*, 127 U. S. 640; *Moran v. New Orleans*, 112 U. S. 69.

<sup>2</sup> *Postal Tel. Co. v. Charleston*, 153 U. S. 692; *Pacific Express Co. v. Seibert*, 142 U. S. 339. *Leloup v. Mobile* is affirmed by *Cruker v. Ky.*, 141 U. S. 47; *McCall v. Cala.*, 136 U. S. 104.



## IV. RECENT TENDENCIES AND THE TAXATION OF FRANCHISES OR PROPERTY BY THE "UNIT RULE."

In recent years a tendency away from the taxation of earnings, by licenses or otherwise, and back to the taxation of property, has been manifest. But the return has not been to the general property tax as such. It has rather assumed the form of a franchise tax, or a tax on the franchise under the guise of a property tax. The distinction is largely a legal one, adopted for the purpose of avoiding the decisions of local courts or constitutional provisions. For in some jurisdictions it has been held that a state can only tax the franchises of corporations created by itself. The state has no extra-territorial sovereignty to tax franchises created by another state. The Ford franchise tax of New York is specifically termed a "franchise tax"; a tax in Ohio on express companies and in Maine on railways is termed an "excise tax", while those of Massachusetts and Connecticut are called "property and franchise taxes". In all cases, however, the effort is to assess the franchise as property; to have it enumerated as one of the constituent elements of the corporation, and assess that value which the company enjoys over and above its physical property as if it were property. In some instances the assessment is obtained by valuing the capital stock alone; in others by appraising the capital stock and the indebtedness; in others by an appraisal of the franchise itself as a franchise.

The first plan obtains in Massachusetts. Here all domestic corporations, with some immaterial exceptions, are taxed on their franchises and property. The main outlines of the system are as follows: Real estate and machinery is assessed by local appraisers and taxed



locally. The remainder of the value of the property, as indicated by the market value of the shares of stock, over and above the assessed value of the real estate and machinery, is taxed by the commonwealth under the corporation or franchise tax, which tax is paid in the first instance into the state treasury, and a portion of the receipts thereafter distributed among the towns. The market value of the stock as thus obtained is spoken of as the "true value of its corporate franchise".

From the aggregate value of the corporate franchise, certain deductions are permitted. After these are made, the corporate franchise is taxed at the average rate of local taxation in the state, and the tax is collected by the State Treasurer. In 1896 these taxes yielded \$3,829,528, of which \$2,729,665 was returned by the State Treasurer to the cities and towns.

The State of Connecticut adopts the second plan as applied to railways, both steam and electric. Physical property is wholly abandoned as a basis, and the tax is levied on the value of the capital stock and the par value of the funded and floating indebtedness. If any of the indebtedness is below par, then the actual value of the obligation is taken. Upon the stocks and bonds, as thus ascertained, an arbitrary rate of one per cent. is levied for state purposes, which tax is in lieu of all other taxes on its franchise, funded and floating debt and property.<sup>1</sup>

When only a portion of the railroad property is in the state, the proportion to be taxed is determined by the proportion which the length of road lying in Connecticut bears to the entire length of the road.<sup>2</sup>

<sup>1</sup> Revised Statutes, Sec. 3920.

<sup>2</sup> Revised Statutes, Sec. 3921.

In 1898, 1899 and 1900, the receipts from these classes of corporations were as follows :

	1898	1899	1900
Steam Railroads.....	\$910,138	\$965,502	\$975,143
Street Railroads.....	133,052	138,503	157,451

In a defective form, the second method is also found in Pennsylvania. This state abandoned the worst features of the general property tax earlier than any other commonwealth, and has nearly divorced its state system from that of the local communities.

Railroads are subject to local taxation in Philadelphia and Pittsburg, and generally on so much of their real estate as is not essential to their franchise.<sup>1</sup> They are also taxed for state purposes by three separate taxes: (1) at the rate of five mills on their capital stock (subject to certain deductions); (2) at the rate of eight mills on their gross earnings; (3) at the rate of four mills upon their bonds as personal property in the hands of the holder. The tax upon the capital stock does not reach the funded debt. That upon gross earnings is collected only from traffic within the state and not from interstate traffic.

The tax upon bonds is not collected from charities, and cannot be collected from foreign holders.<sup>2</sup>

It may be of interest to consider for a moment the operations of this mixed system, for, while it yields a considerable revenue, its operation is in many instances very unjust and is always most anomalous.

The tax upon the capital stock is upon the appraised and not the par value. In some instances the return is considerable. In others it is insignificant. For the

<sup>1</sup> *P. R. R. vs. Pittsburg*, 104 Pa. 543.

<sup>2</sup> *State Tax on Foreign Held Bonds*, 15 Wall. 300.

value of the stock is dependent on the earning capacity of a road, and in a large measure upon the bonded indebtedness and previous fixed charges.

As the Court has held that the state could only tax so many of the bonds as were actually held in the state by the owner, foreign held bonds being exempt, the return from the latter source depend upon the residence of the bondholder.<sup>1</sup> An inquiry made by the auditor general's office of thirteen leading railroad companies showed that out of a total bonded indebtedness of \$350,000,000, the amount of bonds held in the state, and hence liable to state taxation, was less than \$70,000,000. One company with a bonded debt of \$153,000,000 returned less than \$20,000,000 for taxation. Another company with a bonded debt of \$5,500,000 returned about \$50,000 for taxation. Another with a bonded debt of \$12,000,000 returned less than \$90,000 for taxation. Another with a bonded debt of nearly \$500,000 paid no tax to the state on its bonds and less than \$18 on its stock. And yet another company, with a bonded indebtedness of \$3,200,000 returned less than \$190,000 as taxable. One road had a bond issue of \$230,000, not one dollar of which was held in the state, and its capital stock was appraised at \$384. The state tax on this latter road on its stock and bonds amounted to less than \$2.<sup>2</sup> These results indicate the inadequacy of a tax, especially in a western state, based on capital stock alone, and prove that any attempt to tax bonds as bonds, rather than as a measure of valuation, to be futile and arbitrary and at best a makeshift.

<sup>1</sup> State Tax on Foreign Held Bonds, *supra*.

<sup>2</sup> The above statistics are taken from the investigations of the Pennsylvania Tax Conference. Analysis of the revenue bill by C. Stuart Patterson, 1895, p. 12. Speech of C. Stuart Patterson on Taxation of Railroads, 1895, p. 8.

The conclusion of the exhaustive inquiry of the Pennsylvania Tax Conference was that the above system was most unequal in its operation as between different railroad systems and that it placed a penalty on the holding of securities of domestic corporations at home, as well as on the construction of railroad corporations bona fide from the sale of stock rather than by the issuance of bonds. Moreover, it was assumed by that conference that receipts from inter-state traffic were not taxable by the state, leaving only a limited portion of the earnings to be taxed in this way.

The Ford franchise law passed by the assembly of New York in May, 1899, is avowedly a franchise law. By the terms of this act, which is now before the courts of New York for adjudication, no specific method of valuation was provided. No mention is made of stocks and bonds. The law provides for including the value of the franchise as real property in the appraisal of local public service corporations.

At the time of the passage of this Act, its productiveness was variously estimated by persons interested in the measure. Mr. Mathew Marshall, the able financial editor of the New York *Sun*, made a computation showing that the assessed valuation of the State would be increased by it over \$300,000,000, while one of the experts in the Comptroller's office estimated that the increased revenue for New York City alone would be \$10,000,000, and for localities outside of New York City about \$7,000,000.

I am advised by the Secretary of State Board of Tax Commissioners, that under the first year's operation of the law the aggregate amount of the valuations made was \$266,163,059, an increase over previous assessments of the same properties of \$170,101,157. Upon these

valuations local rates are imposed, which on an average amount to  $2\frac{1}{4}$  %. Upon this basis the total taxes derived from this source, would amount to about \$5,988,661.

LEGALITY OF THE FRANCHISE TAX OR TAXATION  
BY THE "UNIT RULE".

Valuation by the above methods has been upheld by the Supreme Court of the United States in a number of cases. It first came before that body in the State Railroad Tax cases<sup>1</sup> which arose under a law of Illinois taxing all corporations on the value of the capital stock, including the franchise as the value which existed over and above the assessed value of the tangible property. The method employed was to add the market value of the capital stock to the market value of the debt (excluding from such debt the indebtedness for current expenses). From the amount thus ascertained, the aggregate amount of the assessed valuation of all tangible property was to be deducted and the amount remaining was to be taxed as the fair cash value of the capital stock including the franchise.

In passing upon this plan, the Court said :

This method " May not be the wisest mode of doing complete justice in this difficult matter ; but we confess we have, on the whole, seen no scheme which is better adapted to effect the purpose, so far as railroad corporations are concerned, of taxing at once all their property, and of making the tax just and equal in its relation to other taxable property of the state.

\* \* \* \* \*

" It may be assumed for all practical purposes, and it is, perhaps absolutely true that every railroad company . . . . has a bonded indebtedness secured by one or more mortgages. The parties who deal in such bonds

<sup>1</sup> 92 U. S. 575.

are generally keen and farsighted men, and most careful in their investments. Hence the value which those securities hold in the market is one of the truest criteria, as far as it goes, of the value of the road as a security for the payment of those bonds. These mortgages are, however, liens on the road, and taking precedence of the shares of the stockholder, may or may not extinguish the value of his shares. They must, in any event, affect that value to the exact amount of the aggregate debts. For all that goes to pay the debt, and its interest, diminishes *pro tanto* the dividend of the shareholder and the value of his shares. It is, therefore, obvious that when you have ascertained the current cash value of the whole funded debt, and the current cash value of the entire number of shares, you have by the action of those who, above all others, can best estimate it, ascertained the true value of the road, all its property, its capital stock and its franchises, for these are all represented by the value of its bonded debt, and the shares of its capital stock."

Again, in *Railway Company v. Backus*,<sup>1</sup> a valuation of a railroad running through two or more states obtained by taking that part of the value of the entire road which is measured by the proportion of the length of the particular part in that State to that of the whole road was sustained,<sup>2</sup> and the court said, "the stock and indebtedness represent the property." It was in evidence in this case that the valuations of the roads were made up from the market value of the stock and bonds, and the gross and net earnings, as well as other evidences. From these and other cases, it would seem to be finally established that corporations engaged in interstate commerce might be valued, for purposes of

<sup>1</sup> 154 U. S. 429.

<sup>2</sup> And the principle of apportionment by mileage has been sustained in *Western Union Tel. Co. v. Mass.*, 125 U. S. 530; *Pullman Palace Car Co. v. Pa.*, 141 U. S. 18; *Maine v. Grand Trunk Ry.*, 142 U. S. 217; *Railroad v. Gibbs*, 142 U. S. 386; *Ry. v. Wright*, 151 U. S. 470.

taxation, by adding the appraised value of the capital stock to the amount of the bonded indebtedness.

As to corporations whose lines are situated partly in one State and partly in another, an assessment ascertained by comparing the length of the line in the taxing State with the length of the entire line in all States, is valid.<sup>1</sup>

And a Pennsylvania statute imposing a tax upon the capital stock of sleeping car companies, on the basis of such proportion of the capital stock as the number of miles of railroad over which cars are run within the state bears to the whole number of miles in this and other states over which its cars are run, was sustained<sup>2</sup> on the ground that a tax on the capital stock of the corporation, on account of its property within the state is in substance and effect a tax on that property.<sup>3</sup> An Ohio law by which telegraph, telephone and express companies are taxed on their capital stock, the value of the property being determined for taxation by the length of miles or gross receipts in the state has been upheld. In this case, the court said that the act was not repugnant to the commerce clause of the constitution because it was essentially property taxation which did not affect interstate commerce. And further that

"No more reason is perceived for limiting the valuation of the property of express companies to horses, wagons and furniture, than that of railroad, telegraph and sleeping car companies to road bed, rails and ties, poles and wires, or cars. The unit is a unit of use and

<sup>1</sup> *Western Union Tel. Co. v. Mass.*, 125 U. S. 530. The same principle was upheld in *Mass. v. Western Union Tel. Co.*, 141 U. S. 40.

<sup>2</sup> *Pullman Car Co. vs. Pa.*, 141 U. S. 18.

<sup>3</sup> *Western Union Telegraph Company v. Taggart*, 163 U. S. 1, arose under an Indiana law, and the court held that it was undistinguishable in any material respect from the Massachusetts act before construed.



management, and the horses, wagons, safes, pouches and furniture; the contracts for transportation facilities; the capital necessary to carry on the business, whether represented in tangible or intangible property, in Ohio, possesses a value in combination and from use in connection with the property and capital elsewhere; which could as rightfully be recognized in the assessment for taxation in the instance of these companies as the others.

We repeat that while the unity which exists may not be a physical unity, it is something more than a mere unity of ownership. It is a unity of use."<sup>1</sup>

Four judges dissented to this decision upon the ground that it was an attempt to tax property outside of the jurisdiction of the commonwealth.

It appears from the evidence in this case, that the three contesting express companies had been valued for taxation upon their physical property only for the three previous years at \$289,862, while under the law in controversy their appraised valuation had been increased to \$4,249,702.

#### CONCLUSION.

It is believed that these adjudications offer a means of escape from the confusion into which the taxation of this class of property was thrown by the early decisions of the federal courts. They establish the principle that railroads and transmission companies as well as other quasi-public corporations may be taxed as a unit; that that unit may include the franchise as an element of property, and that the valuation may be ascertained by adding to the market value of the stock the par value of the bonds; that in case of corporations engaged in interstate traffic, the valuation for a single state may be obtained by placing on the tax duplicate the proportion of this valuation that the length of line, miles of wires or gross receipts within the state bears to the total mileage or

<sup>1</sup> *Adams Express Company v. Auditor*, 165 U. S. 194.



gross receipts. If any legal question still exists, it is as to express and sleeping car companies whose entire property is of a transitory nature and is in the nature of an instrument of commerce.

Such is the plan approved by the Pennsylvania Tax Conference<sup>1</sup> after years of investigation of the subject and endorsed by the leading authorities in the state. Such a method may be applied to railroads, pipe lines, palace car, express, telegraph and telephone companies as well as street railways, gas, water, and electric lighting companies.

It would seem that in the case of telephone companies the proportion of valuation to be credited the taxing state may be best obtained by a comparison of the number of instruments in use; as to express and telephone companies by the proportion of gross receipts in the state to the entire gross receipts, and as to other companies of an interstate character from an apportionment of mileage.

From the valuation as thus obtained certain elements should be subtracted. The Pennsylvania Tax Conference advised that there should be deducted: 1, the value of the stock and bonds, held by the corporation in other companies and taxable for state purposes; 2, real estate and tangible personal property permanently located outside of the commonwealth and taxed locally; and, 3, the value of the corporation's investment exempt from taxation under the constitution and laws of the United States.<sup>2</sup>

<sup>1</sup> Report of Tax Conference, 1895. Speech of C. Stuart Patterson before Ways and Means Committee, Penn. Legislature.

<sup>2</sup> C. Stuart Patterson on "The Taxation of Railroads," before Pennsylvania Legislature, p. 12. It is a debatable question as to whether the last deduction, in so far as it applies to United States bonds and patents, is proper or required by the decisions of the courts.

This method commends itself in the first place by virtue of the fact that it has been adjudged constitutional by the courts. Taxes by licenses, upon receipts, traffic, or passengers are either invalid or likely to be so declared, while the validity of the plan above outlined seems established beyond question.

Moreover, such a tax seems just on principle. It views the corporation as a going concern, as a unit, designed for a specific purpose. It does not reduce the plant to its constituent elements any more than a locomotive engine or any other mechanical device is reduced to the component parts which form it. It treats the system as a whole, just as a building is treated as an entity. It takes into consideration the franchise, in many instances the most valuable portion of the corporation's assets. In many states, as in California, franchises are specifically declared to be property and taxable as such. And, in the eyes of the law, in all condemnation proceedings, payment is required for the franchise as a property right. In the case of transmission companies, this method reaches receipts from interstate as well as local traffic, an element of value which can be best estimated or taxed in this way.

Further than this, the plan suggested adopts as an appraisal the estimate of the commercial world. It assumes that the valuation of the stock exchange is the value for public purposes and adopts that valuation as its own. It commends itself, moreover, by virtue of the ease of appraisal and the difficulty of evasion. Stock quotations are easily ascertained and false returns are practically impossible.

Whatever force the above reasoning may have as to corporations of an interstate character, applies to an equal degree as to street railroads, gas, water and electric

lighting companies. The earning capacity and value of such corporations is reflected with considerable accuracy in their stock and a valuation obtained from the stock and bonds is a pretty correct measure of the property. To an even greater degree than a railroad, valuation of local quasi-public corporations under the general property tax gives no sort of indication of actual value. For their real value lies in the plant as a unit for a specific purpose.

As will be noted, the Massachusetts method differs from that of Connecticut, the franchise tax of New York or the plan proposed by the Pennsylvania Tax Conference in the important particular that in the former state, the indebtedness of the corporation is not looked upon as an integral part of its taxable value, stock alone being considered. This failure to tax corporate liabilities is of less moment in Massachusetts than in the western states, for, as I am informed, railroads and similar corporations in that state are largely constructed by the sale of stock, while in the west, the real investment is usually made by the bondholder. This is evidenced by the investigations of the Pennsylvania Tax Conference, in which state in many instances, the bonds represented nearly the entire value of the railroad. The stock was mere evidence of ownership.

The method suggested herein has been widely approved by recent legislation in several states as well as in the press. The New York *Nation* under date of April 19, 1900, said, relative to the Ford franchise tax:

"The principle of the law taxing 'special franchises' is in accord with justice. No one can dispute the fact that when a privilege, which is commonly an exclusive privilege, to make use of the surface of streets and of the public places in the city, or the space below or above that surface, is granted to private citizens, the right of property is conferred."

The commission appointed to inquire into the tax laws of the State of Massachusetts, which reported in 1897, said of the franchise tax that

"The ease and certainty with which penalties can be applied to domestic corporations, cause the taxes to be paid, as a rule, promptly, and with a minimum of expense for collection."

"The taxes are regular and certain. They are heavy and they yield a large revenue. The rate of taxes on corporate excess for the last fifteen years has been from year to year not far from \$15 per \$1,000, or about 1½ per cent. on the capital. . . . Yet little complaint is heard regarding these taxes, which signally proves that the taxpayers accommodate themselves, if not with ease, at least without serious complaint, to burdens which are steady, regular, predictable, and for which, in consequence, they are able to make calculations and adjust their affairs. The corporation tax is particularly simple, and is assessed with unerring exactness, in the case of large, well known corporations, whose shares are regularly dealt in, and consequently have a publicly recorded value. . . . As a whole, this part of our tax system is an excellent sample of the method of taxing corporations at the source, and of refraining from any dealings with the individual holder of corporate securities, a method admitted in all hands to be the simplest, most efficient and most equitable in the taxation of corporate property."<sup>1</sup>

With a valuation once obtained, the question of distribution arises. Shall an arbitrary rate be imposed as in Connecticut, and the revenues derived therefrom be appropriated to state purposes, or shall the valuation of the state board be distributed to the cities, towns and counties upon the basis of local mileage or local receipts and by them placed upon the local duplicate to be taxed at the local rates. The latter plan is employed in Ohio and some other states as to those corporations

<sup>1</sup> Report of the Commission on Taxation, 1897.

appraised in this way. This question, however, is largely a matter of detail, and its decision will depend upon local conditions and local needs.

While it is believed that the plan above outlined (for the taxation of this class of property) is to be preferred to any other, it is to be confessed that it is liable to objections, and these of no inconsiderable sort. It is open to criticism in that it may subject the corporation to double taxation. This result may arise through the assessments of the same stocks and bonds in the hands of the individual holder in another state. The same criticism is true, however, of any method now employed and applies to the personal property tax generally. It only increases the injustice to the extent that the valuation is increased. Double taxation may also arise in the way indicated in the dissenting opinion of Justice Bradley in the Pullman Car Company case above, for there is nothing to prevent the state which charters a corporation from taxing it at home upon its entire capital stock and bonded indebtedness as a franchise tax. But this objection lies also against any method now employed.

It may also be said that a considerable portion of our railroad property pays no dividends or is in the hands of receivers. Its stock, therefore, either has no value or a fictitious one for voting purposes only. But when the stock has become worthless, it is of course not considered; and if it enjoys a speculative value, it differs in no sense from real estate held for that purpose which enjoys no exemption, for the law makes no distinction in the taxation of other property between that which is productive and that which is not.

## THE TAXATION OF QUASI-PUBLIC CORPORATIONS.

BY FREDERICK N. JUDSON.

Quasi-public corporations are assumed in this connection to be those, which though private in ownership, are affected with a public use, as railroads, or enjoy a municipal franchise in the use of streets or public places; in other words, they are public service corporations. The taxation of such corporations, therefore, involves what is called franchise taxation; that is, the taxation of the intangible property which increases the earning power of the tangible property, and is the result of the public grant, whether state or municipal.

This subject, as is the case with all other subjects of taxation, is now becoming practical, rather than academic. There is a strong popular demand for the taxation of franchises, yet there is in current discussion, and even in legislation, vagueness as to what is a taxable franchise. The right to be a corporation or to transact business as a corporation under our general corporation laws may be had for the asking, on payment of the corporation fee, and therefore has no taxable value. This distinction, which is inherent in the conception of a franchise, was recognized in the New York franchise tax law, which included only the rights of using public streets and places, and classified these as real estate.

The popular demand for franchise taxation springs not only from the sense of justice that all property, tangible and intangible, should be taxed, but it is intensified by the popular recognition of the confessed failure of our taxing system in reaching the wealth invested in personal property. Our cities are also realizing that

through improvident granting of local franchises for the use of their streets, they have been deprived of the revenues which they might have secured by exacting conditions when the franchises were in eager demand. In this growing intensity of public feeling there is danger of hasty and ill-considered legislation.

The Supreme Court of the United States in a recent series of decisions relative to taxation by states of interstate railroad systems, has illustrated the developing power of our jurisprudence in reconciling the taxing power of a state with the federal regulation of interstate commerce. Thus has been established, first, the unit rule, or rule of entirety, to-wit, the value of a railroad in a state for taxation, means the part within the state of the entire tangible and intangible property, and the road has a value as a unit which is more than the aggregate value of the separate parts of the tangible property. Second, as a means of determining this part of the entire value located in the state, the rule of mileage apportionment has been approved; that is, that the proportionate mileage in the state of the entire mileage of the road may be considered in determining the proportion in the state of the entire value, or the state's proportion of the entire earnings. And third, the rule of average of habitual use, whereby cars, such as sleeping cars or refrigerator cars, operated in several states, may be taxed in one state by taxing the average of such cars habitually used in the state. The state cannot tax the privilege of conducting interstate commerce, but it can tax the property, tangible and intangible, employed within its limits in such commerce.<sup>1</sup>

<sup>1</sup> *R. R. Co. v. Backus*, 154 U. S. 421; *Maine v. Grand Trunk R. R. Co.*, 142 U. S. 217; *Adams Express Co. v. Ohio*, 155 U. S. 194; *American Refrigerator and Transit Co. v. Hall*, 174 U. S. 70.



The first two of these principles have been applied by the court, not only to railroad companies, but to telegraph companies, upon the basis of the same mileage apportionment of the poles and wires in the state to the total mileage ; and also to express companies, upon the basis of the comparison of the rail and water-ways operated in the state with the total mileage of rail and water-ways. These principles are based upon the theory declared by the Supreme Court, that, fairly carried out by the different states, they would tax a corporation upon the full value of its tangible and intangible property, and no more. In answer to the objection that it would open the door to injustice through the conflicting action of the different states, it was answered that the courts would relieve against such abuses when cases were presented, the court concluding with these emphatic words :<sup>1</sup>

"Let us say that this is eminently a practical age ; that the courts must recognize things as they are, and as possessing a value which is credited to them in the markets of the world, and that no fine spun theories about *situs* should interfere to prevent these large corporations whose business is carried on through many states from bearing in each state such burden of taxation as a fair distribution of their actual property in those states requires."

Thus the state may ascertain through the mileage rule, or any other means, the value in the state of the entire system, or tax such share of the entire earnings by the application of the mileage rule of apportionment to the total earnings. In other words, it could ascertain how much of the entire property, tangible and intangible, was in the state, and the apportionment of

<sup>1</sup> *Adams Express Co. v. Ohio*, 166 U. S. 225.



the mileage rule is held to be a proper means to this end.

It is obvious that the mileage rule, though thus judicially approved, is at best only approximate. A railroad running through two or more states may have very valuable terminal properties in one state, and a roadbed in the densely settled regions of the Mississippi Valley would have far greater earning power than one in the treeless plains of the far West. The mileage in the state is thus presumptive, but not conclusive, evidence of the proportionate value of the system located in the state.

In the early days of railroad building, taxation was little thought of, and in many Western states charter exemptions from taxation were granted, from which extended litigation has resulted. A rare and notable instance of foresight in statesmanship was seen in the charter of the state of Illinois to the Illinois Central Railroad, which secured a permanent revenue to the state, increasing with the growing prosperity of the road.

In Missouri and many other states, railroad property, as other corporate and individual property, is assumed to be assessed at its "cash value," that is, at what the assessors say is the cash value, the attempt being made to adapt the general property tax to railroad property. In other states, as now in Michigan, the tax is levied upon gross earnings, although recently the constitution of that state has been amended so as to authorize a tax upon value, as other property is taxed. This change, it is reported, was authorized in order to secure equality of taxation with other property under the general property tax. The tax upon gross earnings, while easily ascertained, and thus free from the difficulty en-

countered in ascertaining the value, is open to the economic objection that it discriminates against companies, which have heavy operating expenses with small profits, and in favor of those who have smaller earnings with a larger per cent of profit; and is also open to the practical objection that it is difficult to adjust the rate of tax upon the earnings so as to produce a seeming equality of taxation as compared with the property tax upon other property.

But on the other hand, where the tax is upon value, that is, upon the state's share of the entire value as above explained, there are obvious difficulties in determining that value. The Supreme Court of the United States has sustained the rule of valuation of adding the value of the funded debt to the cash value of the shares, saying that this fixes the value by the action of those who can best estimate it. In some states this is applied by taking the market value of the funded debt, if at par or below, and adding thereto the market value of the shares. There is a difficulty, however, arising from the fluctuating market value of the shares. This value may be unduly enhanced or unduly depressed at the date of the assessment. In Missouri, and most of the other states enforcing the tax upon value, there is no fixed standard, but the assessment is left to the judgment of the assessors, and their finding, as a rule, is not reviewable by the courts.

Assessment of the roadbed and rolling stock by county assessors has been found impracticable, and the system has been very generally established in the different states, of assessing the entire roadbed and rolling stock in a state, by a state board, who apportion the same, according to mileage, to the different counties and cities along the line, the local property, however, not directly

connected with the roadbed, being assessed by the local assessors. This apportionment of the value of the entire roadbed in a state, to the different counties and cities, according to mileage, is absolute, and not presumptive merely, as in case of interstate mileage apportionment, and is open to the objection that it discriminates against the cities where valuable terminals are located, as that value is distributed through all the counties along the line in the state.

This assessment by state boards secures uniformity of valuation, as between the counties along the line of the road, as to the roadbed and rolling stock, but it is found practically impossible to secure uniformity with other classes of property. It is notorious that property is not assessed at its cash value anywhere, except where the assessor succeeds in reaching money or securities in the hands of trustees or administrators. This practice of undervaluation is so notorious, that in some states it is recognized by statute, and in the state of Illinois the practice of assessing one-fifth of the cash value is adopted. In the state of Missouri, a careful investigation recently disclosed that railroads are assessed at about thirty-seven per cent. of the full market value of their securities, on the basis of their mileage in the state, while the average assessments of farm property was considerably less, about thirty-three per cent., in some counties being as low as twenty per cent., the assessment of city property in St. Louis being much higher, from fifty to seventy per cent.

This inequality in taxation, resulting from unequal assessments, was invoked as a ground for judicial interference in an illustrative case from Tennessee, recently decided in the United States Circuit Court of Appeals for

the Sixth Circuit.<sup>1</sup> It was there held that where the uniform practice in various counties of the state was to assess property at not exceeding seventy-five per cent. of its value, an assessment upon railroad property at its "full value," violated the uniformity of taxation required by the state constitution, and that this inequality justified equitable relief, although the state statute required all the property to be assessed at its "full value." The court said that the "full value" required by the statute is the means of securing the equality and uniformity of taxation of the constitution, and that where either the uniformity required by law, or the prescribed means of obtaining it must be departed from, the court would choose the lesser evil. It is said, however, that the want of uniformity must not be sporadic and occasional, but intentional and habitual, and it need not appear that the discrimination was made with the intent to injure the complaining party.

The opinion in this case illustrates the difficulty the courts have with the recognized practice of assessing property at less than its value. In Illinois and Missouri, it has been held that undervaluation of other property is not a ground for equitable relief. It is clear that inequality in taxation is produced as certainly by inequality in assessment as by inequality in the rate of tax. The rule generally followed, however, is that the action of the assessing board in determining what is the cash value, is final and not open to judicial review. In New York, the rule is otherwise; and there the statute provides a remedy, which ought to exist everywhere, for unequal assessments as well as illegal taxation.

The sources of state and municipal revenues should

<sup>1</sup> *Taylor v. L. & N. R. R., Co.*, 31 C. C. A. 537.

be separated and the entire revenue from the assessment of the roadbed and rolling stock of railroads should be given to the state. But whether the tax is levied upon the state's part of the entire property, or its part of the earnings by the application of the mileage rule, and all of the states apply the same rule, it is clear that the entire property of the company, intangible property and franchises as well as the tangible property, will be taxed.

In view of the difficulties both in the taxation upon value and upon gross earnings, it would seem that the most just and fair method of taxation, if the tax upon value is retained, is by capitalizing at five per cent. the entire net income apportioned under the mileage rule, or taxing the state's share of the net earnings so apportioned. Thus under such form of taxation, the company would pay according to its ability from its income, after paying operating expenses; that is, according to the income available for dividends, interest or surplus, and the public would share in the profits as realized. As the state can compel full returns of the operations of such companies, there seems to be no reason why net earnings cannot be as definitely ascertained as gross earnings. Only operating expenses and the maintenance of the existing road or the improvement of the service thereon for the comfort and safety of the public, with the payments for taxes, should be deducted from the gross earnings to be capitalized as taxable according to the system adopted. For the purposes of taxation, it should be immaterial whether the capital invested is borrowed or owned by the company. Thus all of the value represented by the stock and bonds of the company would be taxed, and each state in which the company operated would tax its share of the aggregate value.

There is an important consideration of public policy

that a definite and certain rule of ascertainment of value in the assessment of these public service corporations should be established, and as little as possible left to the arbitrary discretion of boards of assessors or state boards of equalization. Under the present system, where such uncontrolled powers are vested in a state board and their judgment as to cash value for taxation is final, it is inevitable that railroads and other corporations will take an active interest in the election or appointment of officials who are charged with such tremendous powers. The power to change the rate of assessment is in effect the same as the power to change the rate of tax. The only way to eliminate this influence is to remove the cause and to substitute a certain standard for arbitrary discretion. Certainty in taxation was one of the four canons of Adam Smith, and its importance was never more clearly demonstrated. The substitution of certainty for the existing uncertainty and confusion would be a far reaching and most salutary political reform.

The taxation of earnings has this merit of certainty, and if taxation according to value is preferred in order to conform to the taxation of other property, then that value should be ascertained by a definite standard, to-wit, the capitalization at five per cent. of the net earnings on the basis of the same percentage of "full value" as is enforced with regard to other classes of property. This equality should be enforced by the courts.

#### MUNICIPAL FRANCHISES.

These same principles apply to corporations holding municipal franchises. They are as a rule, however, domestic corporations, and the difficulty of apportioning value to different jurisdictions is not encountered. There is a complication, however, growing out of the

right of proprietorship or control which the municipality holds over the public streets, when its consent is required for the user of the streets. Compensation may be and frequently is exacted in granting such local franchises, as in the payment of a per centage of the earnings. Thus in the New York franchise tax law it was provided that any amount paid for the special franchises to the municipality, other than assessments for local improvements, should be deducted from the new franchise tax levied by the State, the object being to equalize corporations of the same class so that those who had secured valuable franchises without compensation from the municipalities should not be given advantage under the law over corporations which had agreed in their franchise grants to make compensation therefor.

Where State constitutions require uniformity in taxation there may be difficulty in applying this rule, as the holder of the franchise may be held to take the grant with its conditions, subject to the exercise of the taxing power of the state. But whatever the legal difficulties may be, such payments are charges upon the earnings, and should be considered in the adjustment of an equitable taxing system. But taxation cannot take the place of conditions which might have been exacted in granting local franchises. When they are granted and private rights are vested therein, they are rightfully subject to taxation as other property, but are protected as other property during their term against confiscation or spoilation. But whether thus reserved in the grant or not, this capitalization of the net earnings for taxation by value, or direct taxation of the net earnings, seems to be the most effective and most equitable method of taxation of such corporations. If a tax upon any inter-



est or property is ineffective, it will certainly be unequal. To secure equality of taxation, the taxation of each class of property must be effective. By such a method of taxation, companies would pay according to the success of the enterprise, and the public would share in their profitable operations. Thus the tax would be adjusted both to the *benefits received* from the public grant and to the *ability to pay*.

#### THE AVOIDANCE OF DOUBLE TAXATION.

It is recognized that the taxation of domestic stockholders in a domestic corporation when the corporation itself is taxed, is double taxation, and the law usually provides against such taxation. But to avoid double taxation, the same exemption should extend to bondholders, as the value represented by the bonds is taxed when the tangible and intangible property of the corporation is taxed. That is, the value securing the bonds is taxed through the corporation.

But the principle established by the Supreme Court of apportioning the value of the entire property, tangible and intangible, of an inter-state corporation between the different states by the mileage rule, necessarily involves the taxation of the full property of the corporation once and once only. Each state taxes its share of this entire value irrespective of the domicile of the corporation, and irrespective of the residence of the security holders. When this system of taxing corporate property and franchises is generally established, as it certainly will be, whether the tax be upon value or upon earnings, justice will require a reciprocal exemption by the different states of holders of securities in foreign corporations. Each state must assume that the adoption of such an equitable rule will not operate injuriously to its rev-



enues, as it receives the benefits of the taxation of all property located within its limits, regardless of the residence of its owners.

The Supreme Court of Missouri<sup>1</sup> recognized the essential justice of this inter-state comity in taxation, commenting upon the injustice of taxing property in a state which is properly taxable elsewhere, and suggesting that this principle could not operate injuriously to Missouri, as the property of foreign capitalists in the state more than equalized the property of citizens located outside of the state.<sup>2</sup> The older and wealthier states of the east, where the securities representing the corporate properties located in other states are largely held, are compensated for the exemption of such securities by their subjection to inheritance taxation in the domiciles of their owners. This seems to be the true function of an inheritance tax, the supplementing other forms of taxation, which are at best approximate only.

There is an interesting illustration of this equitable reciprocity of taxation in Connecticut, where shares in foreign companies are taxable unless the shares, or what they represent, are taxed in the foreign state to the same extent as other like property owned by residents. In the latter case they are not taxable in Connecticut. The courts have held that such stock *prima facie* is deemed to be taxed in the foreign state, so that the assessor in order to tax it, must prove that it is not taxed elsewhere, and the result is that such shares are practically exempt.

<sup>1</sup>69 Mo. 458.

<sup>2</sup>The General Assembly of Missouri refused to recognize this principle of inter-state comity in taxation, and after this decision passed an act (Sessions Acts 1881 p. 177), which is still in the statute books (R. S. 1899 Sec. 9120) specifically subjecting to taxation the non-resident personality held by the Supreme Court to be exempt.

The adoption of this system would go far to remedy the failure of our general property tax, and we would substitute an effective for an ineffective property tax in reaching this large class of personal property. The most serious result of the now admitted failure of our taxing system is the lowering of the national conscience in the matter of tax evasion, which is fast becoming a national scandal. Unjust taxation may not be illegal taxation, and the courts are powerless to relieve against double taxation when resulting from the exercise of the lawful authority of a state over persons or property within its jurisdiction. The evil can only be remedied by the elevation of public opinion, which will recognize that justice in taxation can only be secured by exempting the citizen from paying taxes on any property which pays taxes in any form in any other state or country. Double taxation should be as repugnant to the national sense of justice as tax evasion. It is true that corporate and all other securities now, all but universally, escape taxation except in the hands of trustees or estates in probate; but the result is a scandalous inequality in taxation and a discrimination in favor of the strong and against the weak, as repugnant to common honesty as to economic justice in taxation.

May we not hope that the present agitation for franchise taxation will expose the failure and essential injustice of the present general property tax and result in the recognition by all the states of interstate comity in taxation, so that all the property, tangible and intangible, of these corporations shall be taxed by a just and certain rule, once and only once in any form in any state, and equally with other property?

## DISCUSSION.

Mr. E. R. A. SELIGMAN: It is a significant fact that each of the two papers which we have had the privilege of hearing emanates from a lawyer. It is a proof of how practical a question this problem of corporate taxation has come to be. And yet, as you have seen from these papers, neither of the gentlemen could refrain from importing a great deal of economic theory into the discussion. In fact, those of you who are acquainted with the writings of both of the speakers,—Mr. Howe's book on "Internal Revenue Taxation," and Mr. Judson's recent work on "Taxation in Missouri,"—know that although they are written from the point of view of a lawyer, they have frequently discussed many of the problems from an economic standpoint. Anyone who has gone over the recent decisions of the Supreme Court, or, for that matter, of any of our courts, upon taxation, must recognize the fact that more and more attention is being paid to the question of economic justice, so far as that is compatible with constitutional restrictions.

While listening to these papers, I jotted down two or three ideas. Most of us, I imagine, will agree with the conclusions at which the speakers arrived. There are only a few points on which something might be said in supplement.

To take up a question raised by the first speaker: While his analysis of the decisions of the Supreme Court was in the main exact and admirable, it is perhaps open to question as to whether another line of distinction cannot be found in the decisions of the Supreme

Court on the question of taxation of gross receipts. My colleague, Professor Goodnow, who is here to-day, attempted, after a comprehensive review of these decisions a year or two ago, to point out that the real line of demarcation, in the mind of the Supreme Court on the question of privilege or franchise taxation, so far as gross receipts is concerned, is to be found in the distinction between a domestic and a foreign corporation. While the Supreme Court definitely states that a franchise tax, estimated by the gross receipts of a domestic corporation is valid, it has not yet decided that this applies also to foreign corporations. I trust, however, that we shall hear more about this point from our legal brethren present. The general conclusion, that the difficulties in the way of the taxation of receipts have been largely overcome, is one with which we should all agree.

One point that I failed to notice in the papers of either of the speakers, is the distinction which must be drawn between the different kinds of franchises that are becoming so important to-day. There are no less than three kinds of franchises: first, the franchise to become a corporation; second, the franchise to be a corporation, that is, to act as a corporation; and third, the franchise, exemplified in the recent tax laws of New York and New Jersey, which is a franchise to do a particular kind of a thing. This is called in New York, for instance, a "special franchise." What the speakers to-day called attention to, was only the second class, a franchise of a corporation, whether quasi-public or not, to act as a corporation. It seems to me that in order to complete the discussion of corporate taxation, we should also have to treat of the two other kinds of franchise.

In one respect the problem of the taxation of quasi-

public corporations is simpler than that of corporations in general. In the case of quasi-public corporations the property itself is bound up with the real *situs* of the company. Every one knows where a railroad or a gas company is. In the case of the ordinary corporation, however, it is sometimes difficult to know exactly where it is. This difficulty has led to some of the chief complications, in our eastern states especially. Yet even in the case of quasi-public corporations the difficulties connected with double taxation are present in no slight degree. The weakness of the otherwise admirable Pennsylvania system consists, *e.g.*, in the problems that centre around the taxation of bonds, and the residence of the bond-holder. I may say—and I do not think I am divulging a great secret—that the real reason why the recent attempt to reform the tax-system in New York failed—that great attempt that agitated the whole state last winter—was because by the aid of astute lawyers, the committee was able to draw a bill which would have made it impossible to do in New York what was being done in Pennsylvania. That is to say, had the mortgage tax scheme been adopted it would have applied to the mortgage bonds of quasi-public corporations in such a way that they could not have escaped it even under the decision of the Supreme Court of the United States in the foreign-held bond case. It was a knowledge of this fact, as much as anything else, which rendered it impossible to enact that bill into a law. From all of which, the conclusion can be drawn that the difficulties of tax reform are not as much theoretical, whether in law or economics, as practical.

Another point adverted to, was that of using mileage as a criterion of interstate receipts or interstate property. In addition to the suggestions made on that point by

both speakers, it should be remembered that there is an essential difference between mileage and trackage. When we are dealing with the more densely populated states, with their double, triple or quadruple track, mileage as a test of earnings is a very different thing from trackage. The conclusions from this are obvious.

One of the most interesting points made, was that of Mr. Judson in connection with uniformity of taxation. The attempt to tax corporations aims at imposing upon them a rate equivalent to that which other property pays. Perhaps I may be permitted to say that when the Ford franchise bill was being discussed in New York, I had the privilege of suggesting and incorporating into the law one of the provisions to which Mr. Judson refers, viz., the making of exemptions or deductions for certain other imposts, whether state or local. But when it came to the discussion—and we did discuss it very fully—as to whether the assessed valuation for purposes of this special franchise tax should be the full market value, or only a proportion equivalent to the actual valuation of other property, which ranges in New York from fifty or even less to seventy or eighty per cent., the problem presented itself of making the facts of the case agree with the theory of the law. It was maintained, with some degree of truth, that it would be manifestly improper to assess these corporations at 100 per cent., in the face of the fact of other property being assessed at so much lower figures. It was then proposed to insert into the law some such phrase as that recommended by Mr. Judson. The objection to that, however, was that the law cannot be permitted to stultify itself. If it is the law of any state that the assessor shall take an oath to value general property at its full or fair market price, it is manifestly embarrassing to

assume in another law that a specific statute is violated by those charged to enforce it.

You see, therefore, that the difficulties in the way are not simply those of bringing about a reform in the taxation of corporations. It is a wider question. The one chief reason why property is undervalued, is that it is assessed for both local and state taxes. If there were a divorce between local and state taxation, if state taxes were obtained from some other source than personal taxation, there would be no object in local assessors trying to assess property at less than one hundred per cent. It must be realized, and the New York legislators did realize it fully, that no lasting reform of corporation taxation can take place unless it goes hand in hand with a reform of the whole system of taxation; you cannot expect to have a good system of taxation of corporations, unless you have a good system of taxation in general. It is owing to the fact that a comprehensive reform of taxation is almost impossible in any state of this country because of the diverse interests of the farmer and the industrialist, that it has become necessary to try to approach the problem piecemeal; but if you approach the question piecemeal, there is always danger of getting into confusion worse confounded. There has, indeed, been great progress in the last decade in the education of public opinion, without which no real advance is possible. But there still remains much for scientific analysis to do.

Not until the results of scientific research have sifted down to the community through the popularizing of the conclusions, will the time be ripe for action. It is a good omen that now at length the lawyers and the economists have begun to march together and to work in unison.



Mr. ARTHUR J. EDDY: By training and profession a lawyer, I have found my chief delight in the domain of philosophy and economy, and I am by no means sure that I would not rather have been Adam Smith than Blackstone.

The subject to-day interests me as an economic rather than a legal question. Even if I were so disposed, I could probably add nothing to what has already been said concerning the practical side of the taxation of quasi-public corporations; the question which interests me is, whether quasi-public corporations should be taxed at all.

To every well-managed corporation a tax is a charge against earnings. A quasi-public corporation is bound to serve the public impartially and for reasonable compensation. Within constitutional limitations, both the character of the service and the reasonableness of the charges are subject to investigation and regulation by the state. It is illogical to regulate on the one hand the character of the service performed and the charges therefor, and on the other hand to tax the income resulting from the charges so established.

The imposition of a tax is an assumption that the charges of quasi-public corporations for services are higher than is reasonably warranted by at least the amount of the tax. It is probably true, that the charge of most quasi-public corporations are based upon the necessities of the security holders, and the exigencies of corrupt or extravagant financing, rather than upon the cost and character of the services performed, and it is because the charges are so determined that taxation together with much adverse legislation are excused; but the mere fact that the public is overcharged in order to protect securities extravagantly or corruptly



issued, is no excuse for making a bad condition worse by imposing taxes contrary to sound principles of economy and finance. Over capitalization and extravagance in cost of construction and management are not to be corrected by imposition of taxes.

Assuming a quasi-public corporation wisely financed and prudently managed, the charges allowed for service must be sufficient to secure for the capital invested normal dividends. Under such conditions the imposition of a tax as an additional charge against the earnings necessarily means the addition of at least the amount of the tax to the charges made by the corporation for services performed. If the character of the service and the charge therefor have been determined by the public, the imposition of the tax operates as a direct reduction of the net profits available for security holders, and under the conditions assumed, this means that the reward of the capital invested will be reduced below the normal rate and capital be driven from the enterprise.

In private corporations where the parties in control may regulate their services and their charges to suit themselves, a tax is simply an additional charge, which like any other additional expense, may be immediately provided for by an increase of rates, or some reduction in cost of operation, or as a last resort a reduction of dividends to security holders. In the case, however, of a quasi-public corporation, if it be assumed that service and charges have been wisely regulated through the intervention of the public, the imposition of any additional charge in the way of a tax or a license fee is illogical and detrimental to the interests of the public.

In the case of street railways, for instance, the requirements of the public are, good service and low fares. The better the service and the lower the fares the more

efficiently do street railways perform their functions. If street railways can pay a tax imposed, then without the tax they could give either better service or lower fares. There is no sound reason why the public should pay to street railway companies, in the shape of high rates for transportation, the amount of the tax which is to be returned by the corporation.

Possibly the ideal street railway service is free transportation, the cost of operation being borne by the entire community served. Certainly the practical end to be sought is the lowest possible fare consistent with economic construction, prudent management and good service, fares to be adjusted from time to time according to changing conditions; every additional expense such as taxes, license and franchise fees are direct obstacles to the attainment of this best conceivable practical condition, and are to be excused only upon the assumption heretofore suggested, namely, that construction, management, and financing are of a character so extravagant and corrupt that the people are entitled to share in the plunder to the extent of the taxes imposed.

Mr. JAMES B. DILL explained that he approached the question under discussion not as a economist, but as a practicing lawyer. He believed, to be sure, that it was an advantage to the lawyer to understand economics, and especially in matters of taxation. The time, however, had gone by, he said, when any man who formulated a theory might take pride in his handiwork, because its sole merit was its unusability. There is no longer an injunction resting upon either the lawyer or the economist to refrain from producing his theory until he is quite satisfied that that theory is impracticable. On the other hand the practical lawyer and the practical

economist are more and more meeting upon common ground.

Practical men are inclined, the speaker thought, to give all consideration to any workable suggestions from economists, and he supported that idea by calling attention to the fact that some of the larger corporations were now acting upon suggestions brought forward at meetings of the American Economic Association. But many of the theories of corporate taxation had little practicability to commend them. Their formulators might well say "Thank God, nobody can ever use that." In all that he had heard or read he had never encountered so practical a discussion of the subject of corporate taxation as in the paper by the gentleman from St. Louis.

The first practical point which struck the speaker was that of taxing a corporation at its birth; the natal tax, so to speak; and he regretted that his friend did not enter into the discussion of the ante-natal tax; an important question is, what does the franchise cost, and to whom does that cost go? What is the amount that the state gets? What is the amount left in the lobby? Of course such considerations never arise in Missouri, or in New Jersey; but in New York, the speaker had heard mention of them. Mr. Judson had called attention to the compensation often required for the granting of a franchise. In some cases that compensation divides itself into two parts, the larger part coming first and the smaller part second. The speaker, therefore, emphasized the importance of a high standard of integrity for officials who have the power of granting franchises. Otherwise the first question that will come to the practical lawyer who is not an economist will be: How much must be parted with to some individual before the state

receives a dollar? By no other method than by putting men of unquestioned integrity in office can we be assured that they will look first at the question whether public utility requires the granting of the franchise asked for, instead of looking first for other considerations.

The speaker suggested further that the payment for a franchise should not be fixed in full at the time of its granting, but that there should be an annual charge, determined not on the primary charge to the grantee, but upon the value of the franchise to its user. For practical reasons this annual charge should be fixed according to a definite method of calculation. A rule for solving the problem should be established and no state official should be allowed to work out the result in private, but only upon the public blackboard, where it will be possible to examine his mathematical processes as well as his results. Then the same method that is applied to corporation number one will have to be applied also to corporation number two.<sup>1</sup>

Mr. W. Z. RIPLEY: Most of us are agreed that the principal difficulty in the actual assessment of the franchise tax is to be found in the method which is followed in several of the states, of taking the market value of the stocks, adding or not as you please the bonds according to the state policy in other matters, and deducting therefrom the actual physical, tangible property of the corporation. It is assumed that the law will adequately tax that physical property, but it is also assumed that their excessive earnings are far more than the actual physical tangible investment. The privilege of being

<sup>1</sup> Mr. Dill was unable to revise the report of his remarks, and the report here given of them is merely a paraphrase.

able to make such excessive earnings, over and above the normal interest upon the plant should be paid for in some way. Mr. Ford, author of the New York franchise tax law, as I understand it, proposed to follow this plan of taking the market value of the stock and then deducting therefrom the value of physical property. That seems simple and as, I understand, the tax commissioners acquiesced in it in theory. In the first place the market value of these securities of water, gas or street railway companies is not always fixed by earnings. It may be speculative or it may rest upon the relation between that company and some other. It may rest upon the hope in the future that the stock will be watered by the issue of additional stock at par in some way so that abundance will come to the stock holders which does not necessarily come from the earnings upon the stock. In Massachusetts, where the law seems to work satisfactorily, we have almost all the street railway companies east of Worcester in the hands of an association which is not a corporation. Originally the control of these forty or more street railway companies was vested in trustees. That association known as the Massachusetts Electric Companies has no standing under the corporation laws of Massachusetts and the securities are quoted very low, not because the company is very unprosperous but because the legal position is so doubtful. It is uncertain whether the Legislature will not reach out its hand to take it. There is no doubt in the minds of practical lawyers that the decision of the courts is doubtful. If you take the market value of those securities and deduct the amount of the physical plant, you may have a minus quantity. In other words, the franchise tax would be *nil* upon all classes of such securities, and that too, because they are practically

evading the corporation laws of Massachusetts. Of course such difficulties may be remedied in time, but they offer an example where the market value of securities is not determined by earning power. The Third Avenue Railway stock in New York one day stands at 250, the next at 50, the next at 100. With such fluctuations between 1895 and the present day if you add all the market values of these corporations, stock *minus* actual property, you have a very uncertain process. If you reject the market value and take the par value you have other objections, probably greater. You will have this advantage: if your corporation is over-capitalized, if its securities are quoted at 25 in the market because there are four times too many, that corporation would be taxed upon par value minus the values of the physical plant rather than upon 25 per share as indicated.

In conclusion I feel very strongly that this question of taxation is bound up very largely with the question of general corporate control. Massachusetts is favored in the matter of the franchise tax, but almost entirely because our other corporation laws are so strictly enforced, because in Massachusetts they must not be over-capitalized and because they must be public so that you may always know what the companies are doing.

In conclusion I would emphasize this fact that the taxation question is only a part and a mere branch of the question of control of capital and of public corporations. We, in Massachusetts, see our great corporations going elsewhere. We are sorry for it. Yet Massachusetts feels the necessity of holding the standard of corporate control as high as she has always done. Only by holding it so high will she be able to do without other franchise tax laws as they stand on the statute books of other states at present.

*Question:* How far does Massachusetts succeed in preventing stock watering? Have they taxes according to par value? Is that enforced practically?

MR. RIPLEY: I believe I may say that it is enforced in all companies with the exception of large companies in the city of Boston. Even there in the case of street railway companies it is enforced with a good deal of completeness. The local situation is bad, and there are some bad things about the street railway system in Boston, but with that exception I believe that the corporations of Massachusetts as a whole represent in their capital the actual investment in physical tangible plant.

MR. E. J. JAMES was not convinced by Mr. Eddy's argument against the taxation of quasi-public corporations. Even if the business of supplying some good or service, such as transportation, were in the hands of the state itself, he thought it would be reasonable to tax the plant in the same way in which it might be taxed if in the hands of a private owner not subject to public supervision as to charges or quality of service. Take for instance a municipal gas plant. The taxpayer who does not use gas may very reasonably demand that those who do, pay enough for it to afford a profit equivalent to the taxes which the city would have collected from similar gas plants in private hands. Unless this be done, the sum must come out of other taxpayers, and the non-user of gas must, as a taxpayer, contribute his share, which virtually goes to furnish cheaper gas to the consumer. If, as a matter of fact, every citizen made use of a municipal plant to the same extent as every other citizen, then there might be no reason for insisting that the city tax its own plants. Probably a municipal street



railway would be more generally used than a municipal gas plant. But we must realize that in his capacity as a taxpayer, a citizen may have claim to a return from the government which he would not get by being afforded intramural transportation at a low rate.<sup>1</sup>

Mr. EDDY: That leads to the fixing of the fare in the case of street railways, for instance, high enough to pay back to the state the amount of the tax levied; that is, at six cents, in order that the company may pay back one cent. The theoretical advantages of this suggestion may be more than offset by its practical disadvantages.

Mr. GRAY: The remarks of Prof. James show me that it is possible to confine ourselves so closely to a single element in a problem, as to lose sight of its wider and more serious bearings. To my mind, it is not primarily a question of what is right as between a street car company and its patrons, but rather of what relation should exist between these two in the public interest. I know of scarcely an attempt to tax a company of this kind, that has not lead to social conditions which necessitated a public expenditure greater than the amount of the tax. I am not sure of the effects of the incidence of such a tax on the ultimate prosperity of the company, but am sure that such attempts usually result in limiting the extent and diminishing the efficiency of the service, and in intensifying the evils of slums in our large cities. The man who pays too high a fare may or may not be wronged. But the man who is by such a tax entirely deprived of the service, and the public which must raise large sums apart from this tax to check and abolish the

<sup>1</sup> The above paraphrase of Mr. James's remarks has not had the advantage of being corrected by him.

slums, are greatly injured. These services are all too essential to social welfare to justify us in checking or crippling them by attempts to make them contribute directly to the public treasury. The minimum demand of the public ought to be a fare low enough to make the service self-sustaining without any special taxation.

Professor JAMES: If we are justified in taking money out of the treasury of the state in order to keep the fares down, or if we are justified in paying money out of the treasury in order to keep the price of gas low, then the other case would be justified.

Professor GRAY: I do not advocate taking money out of the treasury, but am opposed to putting money into the treasury, unjustly and unwisely, from this source. Fix the fare at a rate that will just make the service self supporting.

Mr. J. F. GOODNOW: I did not come here expecting to speak about this question. The particular point that was brought out, was with regard to the constitutional power of the states, under the decisions of the United States Supreme Court, to impose taxes upon the gross receipts of railways. My attention was called particularly to the question as the result of a decision which has been referred to, viz, Maine against the Grand Trunk Railway Co. It was alleged that it overruled the former decisions of the Supreme Court. An examination of that decision will, however, reveal the fact that the corporation upon which the tax was imposed was not a foreign corporation. Of course, the suit was directed against the Grand Trunk Railway, but the actual corporation whose receipts were in question, was one leased by the Grand Trunk Railway and was a Maine corpora-

tion. A state has the right to impose a tax on the gross receipts of a domestic corporation. The Supreme Court regards this as a franchise tax. A state can only tax the right of a foreign corporation to do business in the state. In the case of a foreign corporation, the state can tax the gross receipts from state and not from interstate commerce. I do not think the case against the Grand Trunk Railway overruled the former decisions.

Mr. JUDSON: Professor Goodnow has alluded to the recent decisions of the Supreme Court of the United States. One of the justices of that court said in a recent letter, that these questions of interstate taxation had caused the court more trouble than any other questions which had come before them. Under the recent decisions of the court, as I read them, it seems that in the taxation of interstate corporations, the domicile of the corporation and the theory of *situs* based upon the domicile of the corporation, are no longer material factors. Thus a non-resident corporation may hold tangible property in a state, insignificant in value, yet that property is part of a system which has a value in use, and the state can tax its proportion of that entire united property, according to that value in use. The court said that it would ignore fine spun theories of *situs*. If the state can thus tax its part of the entire value, irrespective of the domicile of the corporation, why can it not tax its part of the entire gross or net earnings? If the mileage rule is an appropriate means of ascertaining the state's proportion of the entire value, why may it not be applied in determining the state's share of the entire earnings? Injustice, of course, may be done in the determination of a state's share of the entire earnings, just as the court admits injustice may be committed

in determining the state's share of the entire value,—but the courts will deal with such questions of injustice when they arise. It would seem that the courts have removed the legal difficulties in the way of a just system of taxation of interstate properties, and it now remains for public opinion to insure justice in the exercise of this state power of taxation. It is becoming an economic and moral question, rather than a legal question.

MR. THEODORE MARBURG: There is a growing disposition to tax franchises, and personally I believe such a tax to be just. But there is one point to which attention ought to be called. It touches upon a question of social justice and expediency and to my mind is highly important. It is that such a tax should not be applied abruptly. A franchise tax may be quite just in principle and yet gross injustice may arise through applying it too abruptly. The Ford law offers a case in point. It proposed to tax the franchises of certain corporations at the full tax rate, the market value of the stock being used as a guide in determining the value of the franchise. Now many securities are on a 4% basis, and the tax rate is often \$2.00. The Consolidated Gas Company of New York, for example, paid dividends of 8% and the value of its stock was in the neighborhood of 200. A tax rate of \$2 on the full market value would have taken away 4%, or half the amount paid in dividends.

Quite as much injustice may arise through the abrupt application of a sound principle as through the application of a false principle. Some method should be devised by which such a tax could be applied gradually through a period of years, beginning with a small percentage and increasing it each year until the full tax is reached. This would permit the business of corpora-

tions in our growing American communities to grow up to this new demand of the public treasury upon them. If no such increase of business occurred, the stockholder, who is often a person of small property, could then accommodate his expenditures to a gradually decreasing income.

Mr. S. F. WESTON: We have heard a good deal of the theoretical side of the question. I wish to call attention to an important practical point—the question of uniform assessment. Mr. Howe called attention to the assessment of railroads by counties; but there should be some uniform method of assessment throughout the state. We have here the same difficulty as in the assessment of real estate property, where the inequality is very conspicuous. A large real estate owner in Cleveland told me that at the recent decennial appraisalment he made inquiries of various assessors and found that some were making appraisments of 40%, some at 50%, some at 60%, while in one case they were as high as 70% of the real value. This is a gross injustice; but you will find the same thing in the county appraisalment of corporate property. But to get the uniform assessment should the assessment be made on the full value of the property? Professor Seligman made the remark that if you make the assessment at the full value it means a lower rate. Now this is theoretically true, but it seems to me that there is a valid practical objection to such appraisalment. One objection, made by the real estate owner referred to, is that if you assess property at its full value, with the idea of lowering the rate, there is a very strong temptation to the politicians in power to unduly increase expenditures, appealing to the low rate as a justification. It seems to me that this is a

decidedly practical objection to the assessment of property at its full valuation.

Another objection, I take it, is that you will get a more accurate and truthful declaration on the part of the owners themselves if they are assessed say at 50%, instead of at the full valuation. When you assess property at its full value, the feeling is very likely to prevail that there are many escaping their just taxes by under-assessments. There is a psychological factor at work here which can not be overlooked and which should be taken into account by the practical legislator.

#### NOTE.

For the Joint Session of the American Economic Association and the American Historical Association four papers were announced. Those read on behalf of the Historical Association by Professor Paul S. Reinsch of the University of Wisconsin, and Professor H. Morse Stephens of Cornell University, will be printed in the usual way. Professor J. H. Hollander of Johns Hopkins University, present Treasurer of Porto Rico, was unable to attend the session or to present, on behalf of the Economic Association, his paper on the Finances of Porto Rico; and the paper of the Association's other representative, Professor J. H. Finley, of Princeton University, is omitted by his own request. Accordingly the remarks of President James B. Angell in opening the joint session, and of Mr. Richard T. Ely, who, in the absence of Mr. Edward Eggleston, responded for both Associations, are immediately followed by the report of the discussion on the papers presented, but not printed here.



## REMARKS OF PRESIDENT ANGELL

IN OPENING THE JOINT SESSION OF THE TWO ASSOCIATIONS IN ANN ARBOR.

In the name of the university I bid you the heartiest welcome to her halls. We thank you most warmly for doing us the honor to come to us for the sessions of today. The object for which your associations are organized, the pursuit of historic and economic truth, has been long and ardently cherished in this institution. History had been but little studied even in most of the older eastern colleges when Andrew D. White began his brilliant courses of lectures here, and at once won a national reputation for himself and the university. His successor, Charles Kendall Adams, here established the seminary system of historical study, which has since been introduced into every college of standing. Of the historic and economic work of the teachers still here their modesty would not permit me to speak. But I can assure you that no association of scholars could find a more congenial atmosphere and a warmer welcome on these grounds than those which it is now our pleasure to greet.

It strikes me as a most happy arrangement and a most promising augury for the future of both historical and economical research that these two associations are holding their meetings jointly. I need not remind this learned audience that it is only within a recent period that historians generally have deemed it of importance to give us in their narratives of the lives of nations any accounts of the economic conditions of peoples, or to search in the economic facts of a national life for the

explanation of a nation's rise or fall. Of the intrigues and rivalries of princes, of the scandals of courts, of the battles of warriors, we heard enough and more than enough. But of the conditions of production and consumption by the people, of the progress of inventions and their effects on the common toiler, of the thousand causes that determined the destiny of the peasant and the artisan and so ultimately the fate of the nation we heard but little before this century.

So, too, on the other hand, how many of our earlier text-book writers on economy gave insufficient attention to industrial history, and filled their pages with reasonings about the motives and career of an imaginary industrial man, who never existed in the flesh. Has there been any more striking or beneficent change in recent economic study than the increased attention which has been given to industrial history?

I hail, therefore, with satisfaction, the friendly approach to each other of the two bodies of scholars represented by these two kindred associations.

I am especially glad to observe by the programme that you are together to consider the Colonial Problems, which have suddenly become of so much importance to us. In the study of those problems how obviously do we need the light to be obtained both by historic and by economic study. We congratulate ourselves that you are to bring us the fruits of your scholarship in the discussion of these timely themes. Upon no subject perhaps does our nation need more light.

#### RESPONSE BY RICHARD T. ELY.

*Mr. President :* On behalf of the American Historical Association, and of the American Economic Association, I thank you for your cordial words of welcome. It gives us peculiar pleasure to be in Ann Arbor, the seat of the University of Michigan. There are so many reasons why we are glad to have the privilege of being with you that I could not attempt to mention them all. I may, however, allude to one or two. We are glad to come together in this beautiful city from every part of our common country and renew old associations and to form new connections under such happy auspices. We all feel, I am sure, that the chief thing in coming together as we do year after year is not merely to listen to papers nor even to read papers to appreciative and patient audiences. I doubt if that is even the chief thing. Probably we would all say that the great thing is personal contact and the informal exchange of ideas. It is necessary to worthy intellectual and social life that we should come together and learn to know each other face to face.

But there is another circumstance which should be mentioned. When we historians and economists meet in this place we are grateful for the contributions which the University of Michigan has made, on the one hand to good citizenship, and on the other, to sound scholarship in history, economics and allied branches of knowledge. We remember the great service which the University of Michigan has rendered in contributions of historians and economists to our public service. I cannot mention names generally, there are too many of

them, but, ladies and gentlemen, under the present circumstances we all recall the diplomatic services in the Orient which have been rendered by the president of the University of Michigan, the distinguished gentleman who has kindly consented to occupy the chair at this joint meeting.

The University of Michigan also suggests the name of Honorable Andrew D. White, who began his career here, and who, here and elsewhere, has stimulated so many young men to do good work—some of them now no longer exactly young men. We recall also the service which, through Dr. Charles Kendall Adams, the University of Michigan rendered in the establishment of the seminary method in this country. We recall also names of those now present who have made important contributions to historical, economic and statistical knowledge.

Mr. President, we feel that while we are in Ann Arbor we are in good company, and we express to you our gratitude for what the University of Michigan has done for those lines of work which especially interest us. Again, on behalf of the American Historical Association, and the American Economic Association, I thank you warmly for your greeting.

## DISCUSSION.

Mr. H. E. BOURNE: Hardly anything seems to be left for me as leader of this discussion except to emphasize the doctrine which has already been presented, that colonization is a local problem. There are, of course, certain principles of colonization, but yet the solution of each problem must be reached by study of local conditions. Mr. Stephens brought out this fact in his remarks on India.

It may be worth while, in opening the discussion, to distinguish between the various points of view from which the Porto Rican policy of the government has been popularly discussed. A great deal of this discussion has been based upon our domestic traditions, going back to the Revolutionary War. These are honorable to us, and I should be the last to urge that we abandon any of them. Nevertheless, they may not facilitate intelligent study of the colonial problem. However much we revere the Declaration of Independence, it does not throw much light upon colonization in the tropics. Most of the critics of French experiments in colonization point out the fact that France has been at a disadvantage in comparison with England, because ever since the French revolution, the French have been dominated by certain abstract ideas and they have been unable to use expedients like chartered companies, which the English have successfully employed. Although England probably better provides for self-government at home, the Englishman does not put his own experience into the form of abstract principles which he packs in his grip-sack and takes wherever he goes. When he goes to

India, he formulates principles adapted to the condition of the country. I think the disadvantage under which the Frenchmen labor was admirably brought out in Dr. Reinsch's paper.

The second point of view from which Porto Rican legislation has been studied is the political origin of the Porto Rican bills. Judging from the accounts in the newspapers, it appears that for a time we were to have free trade with Porto Rico, but that for some reason or other the first plan was abandoned and the law actually in existence was introduced. It is asserted that this law was suggested by certain protected interests in this country which feared competition from Porto Rican sugar and tobacco. If this was the case, the Porto Rican bill was a piece of vicious colonial legislation, irrespective of the fact that it may have actually operated an advantage as a method of collecting taxes from Porto Rico. Laws for the Porto Ricans should spring out of the needs of the Porto Ricans, not out of the needs of the people of the United States. Furthermore, a good deal has been said, during the discussion of the Porto Rican tariff bill, of the danger that if we have free trade with Porto Rico, we shall be obliged to have free trade with the Philippines. It is urged that Congress must set a precedent which would give us an opportunity to deal with the Philippine question on its merits. It is evident that while free trade between Porto Rico and the United States might be an advantage to Porto Rico, even though there went along with this the American tariff around Porto Rico against all foreigners, such a policy would be ruinous to the Philippines, because the Philippine Islands, unlike Porto Rico, do not lie within the sphere of our trade influence.

The third point of view upon which the colonial prob-

lem may be studied is that of the local conditions in the various possessions, and of the experience of European people in dealing with such possessions. I think that this is the only intelligent method of studying the problem and the only method of arriving at the proper solution. It may sound well to give possessions legislative representation, and yet you remember Dr. Reinsch's paper alluded to the fact that the French were coming to the conclusion that their policy of assimilation was a failure. If we study the system of representation which the French have adopted, not only in the West Indies but elsewhere, we must conclude that it is a farce. Of what good is it to a possession like Cochinchina, so far away from France that its interests are very different from those of France, to have one or two representatives in Paris. It is true, these men may gain some influence, and yet it appears that they have never been able to use their influence to bring about valuable reforms for the colony itself. It is likely that the dominant interest of the mother country will overcome, or at least obscure, the interests of distant possessions. Porto Rico is not very far away and its interests may be said to be quite like our own. But those of the Philippine Islands are certainly not. These islands are as far away as possible, not only geographically, but in every other way,—socially, politically, in traditions and sympathies.

A comparison between the situation in Porto Rico and the Philippines and the experience of European peoples in administering their own possessions might be carried into detail, but I wish simply to emphasize the principle that it is absolutely necessary to study the experience of other peoples before attempting to reach any definite solution of the problem for ourselves.



Mr. C. H. HULL : I appeal for your indulgence, while I attempt, in view of the emergency produced by Dr. Hollander's absence, to review briefly the salient features of the fiscal problem now pressing for solution in Porto Rico ; to describe the condition of affairs there as to public expenditures and revenues before the intervention of the United States ; to trace the changes which have become inevitable because of our intervention, and finally to outline the measures that are proposed to meet the changed conditions. This may require a somewhat dry recital of mere facts. But we have just heard that colonial questions cannot be discussed, or even understood, until colonial facts are known.

Let us take as our point of departure the Porto Rican estimates for the fiscal year 1897-98. The total expenses of the insular government, exclusive of municipal expenditures, were reckoned, in round numbers, at five million one hundred thousand pesos.<sup>1</sup>

Of these expenditures 500,000 pesos were for general obligations in Madrid, such as the colonial ministry, the auditing of accounts, etc., 1,500,000 pesos were the insular contribution towards the military and naval expenses of Spain, and 200,000 were for the support of the clergy. The passage of Porto Rico to the United States will do away with these three items aggregating more than 2,100,000 pesos, or a little over forty-one per cent. of the insular expenditures hitherto. The remainder will probably go on substantially undiminished. It would be an extravagant estimate to say that Porto Rico will

<sup>1</sup> The value of the peso in our money has varied, and is at present approximately sixty cents. To simplify matters I speak throughout of pesos, assuming that, as dollars, and other American customs, make their way into Porto Rico, prices, and wages also, will rise to correspond. That may not happen, but the assumption will serve the present purpose.

find herself relieved of half her previous insular expenditures, merely by becoming a part of the United States.

On the other hand, the annexation of Porto Rico to the United States will deprive her of much more than half the revenues by which she uniformly met all her expenditures without being obliged to resort to borrowing, either insular or municipal. The system of taxation which accomplished this unusual result was Spanish; and it is the present fashion in the United States to abuse everything Spanish without rhyme or reason. But there is no adequate evidence that taxes in Porto Rico were seriously oppressive. The Special Commissioner of the Treasury Department advertised throughout the island for complaints, and complaints, of course, he heard—where were there ever taxes of which no one complained? But he himself says that “the general testimony was to the effect that taxation was not really oppressive.” And if you read the testimony which he took, you will find that there was far more complaint of General Henry’s tax reforms than of the taxes which the military government had thought it necessary to reform. Let us, then, look at Porto Rico’s revenues for 1897–98 in more detail. Sixty-six per cent. of them was to come from customs duties, twenty-one per cent. from direct taxes, six per cent. from the public lottery, two and five-tenths per cent. from the post office, three and five-tenths per cent. from various government monopolies, chiefly that of the sale of stamped paper for notarial and commercial documents, and two per cent. from state property and incidental sources.

Of this fiscal structure the annexation of Porto Rico to the United States destroys fully three-quarters. The lottery is gone already, the postal revenues will flow

henceforth to the Washington Treasury, and a large part of the stamp taxes were petulantly wiped out by General Henry with childlike indifference to the possibility of finding a substitute for them. But far more serious than all this is the loss of the customs duties. I have neither time or inclination to discuss the constitutionality, or the political expediency, or even the industrial effect of a Porto Rican tariff, whatsoever its rates. But I cannot shut my eyes to the plain fact that the present impossibility of an insular tariff immensely complicates the fiscal problem in Porto Rico. The remaining West Indies, practically without exception, collect and for a century have collected the greater share of their revenues by customs duties. This fiscal uniformity throughout a region politically the most variegated upon the face of the earth, supports the conclusion, which I reach upon other grounds, that customs duties are the easiest way of getting public revenues in the Antilles. They suit more nearly than any other sort of taxes the insular situation, the agricultural character, and the improvidence and indigence of the swarming populations in that section.

To sum up the matter so far, American occupation directly reduced Porto Rico's expenditures by less than fifty per cent, while it directly reduced her revenues fully seventy-five per cent. Her remaining revenues will be inadequate to meet half her remaining expenditures.

But this is by no means the whole story. The process of Americanization of the island will occasion large domestic expenditures in some ways where expenditures under Spanish rule were small. Notably for schools and for roads. There are now 800 school houses on the island having accommodations for 40,000

children. In his speech to the insular legislature the fourth of this month,<sup>1</sup> Governor Allen told them that there were upwards of 300,000 children for whom no provision is now made. And for all these, in his opinion, "buildings should be erected, thoroughly equipped with all modern appliances for good work, and trained teachers placed in charge." The Governor's standard is unduly high. In order to find 340,000 school children in Porto Rico he must include all between 5 and 17 years of age. But it is impossible that so poor a tropical country should keep its children in school up to 17 years of age. Porto Rico cannot afford it, and it ought not to be expected of her. Let us take, therefore, 125,000 additional school children as the number to be housed, making 165,000 in all. At 10 pesos per capita or 500 pesos for a school of 50, which is the average size of the existing 800 schools, new school houses, equipped, will cost at least 1,250,000 pesos. Assuming this to be raised by four per cent. school bonds having 20 years to run, the interest and the sinking fund will amount to, say, 100,000 pesos annually. If now we estimate the running expenses of these schools at two pesos per pupil, or less than one tenth the average cost of the public schools in the United States, the total additional expenditure for school purposes will be 350,000 pesos.

The other great items of necessary additional expenditure are for public improvements. For centuries the crying need of the island has been roads. Already the American Board of Public Works has spent nearly one and one-quarter millions in road making, and Governor

<sup>1</sup> Address of his excellency Charles H. Allen to the two branches of the legislature of Porto Rico, December 4, 1900. *Porto Rico: Tip El Pais*. 8°.

Allen estimates that "about four millions more will be required for completing the roads, aqueducts and bridges upon the plan suggested for the islands." Assuming that the million and a quarter already expended will come out of the Congressional appropriation for the relief of Porto Rico, we will take only 4,000,000 for roads upon our contemplated insular debt, and allow the road bonds to run thirty years at four per cent. Their interest and sinking fund will come to over 250,000 pesos per annum.

The up-keep of roads in a mountainous country with torrential rains is expensive. Three per cent. on their cost is a very moderate estimate; probably five per cent. would be nearer the fact. But taking three per cent. we have, without mentioning the harbor improvements which are urgently needed, the following additional insular expenses for Porto Rico:

Service of school debt.....	100,000 pesos.
Service of road debt.....	250,000 "
Maintenance of schools.....	250,000 "
Maintenance of roads.....	120,000 "
	<hr/>
	720,000 pesos.

This, with 2,500,000 pesos of expenses standing over from the old régime, makes, say, three and one-quarter million pesos in all.

The task that confronted the architects of Porto Rico's new system of taxation, therefore, was to devise a way of raising three and one-quarter million pesos per annum without resort to a tariff, and to put the new system into operation before the first day of March, 1902.

On what foundation of existing taxes could they build? Practically the only Spanish taxes that could have been retained were the so-called "direct taxes," producing 1,090,000 pesos, or about one-third of the minimum

amount required. These direct taxes consisted chiefly of three great impositions: the territorial tax, the business tax, and the certificate of domicile. The territorial tax was five per cent. on the assumed annual value of real property, as estimated from declarations of the owner. In case of urban property the rental value was directly estimated in money and the tax was collected whether the property was occupied by its owner, rented out, or stood idle. In case of rural property the rental value for purposes of this tax was obtained by multiplying the declared produce of the land by certain arbitrary prices, such as three pesos per quintal for sugar, twelve pesos for coffee, a specific sum per head for cattle in pasture, etc. The assessed value, however, was much smaller than the value thus calculated, an allowance being made for working expenses at the rate of seventy-five per cent. on cane lands, sixty-seven per cent. on coffee plantations, twenty-five per cent. on urban property, and ten per cent. on pastures. There was little machinery for checking the correctness of the declarations and charges are frequent that some taxpayers, especially the wealthier, evaded part of their taxes by under-declaration. This tax brought in about 450,000 pesos per annum.

The business tax is, roughly speaking, like the French "patente." All persons carrying on any business or pursuing any occupation are divided into four groups which may be roughly described as: first, domestic merchants of all sorts; second, importers and exporters, bankers and common carriers; third, manufacturers; fourth, professional men, and those in other occupations. There is a tax schedule fixing amounts for persons in each group, and the amounts exacted vary (a) with the size of the town, and (b) with the magnitude of the bus-

iness. This tax brought in about 250,000 pesos to the insular treasury.

The domiciliary certificate, though nominally optional, was necessary for all male adults, so that the fee charged for it amounted to a poll tax. It varied from 25 pesos to 10 centavos according to the occupation or wealth of the person in question, and this brought in nearly 200,000 pesos per annum.

The plan for the future taxation of the island evolved by the present government is not yet fully known in this country. I have learned since coming to Detroit that the new tax bill and the official argument for it were expected to be in print in time to leave Porto Rico by last Monday's steamer, Dec. 24. This session therefore, is about three days too early for it to reach us. Meanwhile our best source of information as to it is the brief outline contained in Governor Allen's speech already mentioned, and I shall take the liberty of reading a couple of paragraphs from that :

Inasmuch, therefore, as there remain but fifteen months under which, by the terms of the organic act, customs revenues may be depended upon as a support to the government, it devolves upon the legislature, at as early a date as it can conveniently do so, to devise a system of taxation sufficient to meet the necessities of the government, to the end that such system may be well understood and in good working order prior to the date fixed in the law when such system shall become the source of revenue for the support of the government. As an aid and suggestion in this direction, I have the honor to recommend to your attention the following general scheme of taxation, subject to such regulations, limitations and changes as your judgment shall deem wise and sufficient.

Pending a possible loss of customs receipts in 1902, it will be necessary, as I have before stated, for the legislature to supply the means of providing a sufficient income to meet the needs of the government. This, I



take it, will at once suggest to your minds the application of some just and equitable system of taxation, which will not only establish new sources of insular revenue, but will also correct serious defects in existing tax laws. Such a bill, I take it, should embrace the results of careful consideration, and should be founded upon accounts and plans of modern taxation, with special reference to the conditions obtainable in this island. Legislation on this subject should provide for a direct tax on the assessed value of real and personal property, an excise tax on liquors, alcoholics and certain other articles consumed or imported into Porto Rico, and an inheritance tax on the devolution of property. The direct tax on property would be designed to replace the present crude and inequitable territorial tax now in force. Provision should be made for a general assessment of all property in Porto Rico, and upon this valuation, a tax of moderate amount would be levied for insular purposes. The same basis would naturally be employed for the levying of such local taxes as may be hereafter authorized. Insular and local taxes should be collected by a force of salaried collectors and deputy collectors, in place of the inefficient and out-of-date system of commission-paid tax collectors. Such property tax would be essentially similar to the property tax in use in the United States. Exemptions, such as are found in American states whose conditions approximate those of Porto Rico, might be appropriately made of churches, charitable institutions, and public buildings. With these exceptions, every person, association and corporation, would be subject to taxation, according to ability, as represented by the net value of capital or wealth, or the nearest approximation that can be obtained.

Under the provisions of the Act of Congress, approved April 12th, 1900, Porto Rico was specifically exempted from the operations of the Internal Revenue laws of the United States. The purpose of this generous exemption was to allow the adoption of an insular excise system based on local conditions and requirements. With this in view, it would be well to impose an excise stamp tax on alcoholics, tobacco, and certain other articles, manufactured or imported in Porto Rico, together with

a specific license tax on the sale of such articles. Moderate stamp taxes should also be imposed on notarial documents, and bills of lading. The rates of taxation proposed in the bill, perhaps need not be more than one-half in amount of those imposed by the internal revenue laws of the United States. The present inconvenient and annoying "consumo" taxes, collected by the municipalities, should be replaced by a single insular excise tax, a portion of the proceeds of which should be apportioned among the local bodies. Provision should be made for the extension and improvement of the present useful force of internal revenue agents, with a view to reproducing in Porto Rico the efficiency and fidelity of the internal revenue service in the United States.

The inheritance tax should be a moderate tax upon the privilege of inheritance, increasing in rate with the remoteness of relationship, and the amount of the bequest. Such a measure would be in harmony, both with fiscal usage in Porto Rico, and with the trend of the best financial experience in the United States.

Upon the plan thus outlined by Governor Allen, two chief lines of criticism seem possible. Fuller information will, I hope, show them to be altogether unwarranted, and they are now merely suggested, by no means urged. The first of these tentative criticisms is political, the second fiscal. Perhaps it will help to indicate my own doubt as to their validity if they be put as questions, rather than as propositions.

On the political side it may be asked whether changes so sweeping as those proposed, are not likely to fan the embers of discontent to an unnecessary heat, not to say to a blaze. The maxim: "There are no good taxes but old taxes," may not be fiscally wise, politically it is so. Very great and very certain advantages of equality, or of productivity, or both are required to justify wholesale changes in an established system of taxation. Are the advantages of the general property tax over the territorial tax, and of an internal revenue tax on our fed-

eral pattern over their business tax great enough and obvious enough to reconcile the Porto Ricans to the substitution?

On the fiscal side,—will the proposed taxes do the work? Governor Allen says that good judges estimate the true valuation of the island at a hundred millions. Taxation, apparently, must be fully three per cent. on that valuation, taking all sorts of taxes into account. Will it prove possible to extract so much from such a population as Porto Rico has, with the few and simple tools proposed for the purpose?

Whatever answer we may be inclined to give to these questions, we are justified in believing that all is being recommended that wide acquaintance with methods of actual taxation backed by sound judgment and directed by transparent honesty can suggest. But when we contemplate the fact that all the other countries which have assumed responsibility for West Indian populations, and and have tried to keep those populations from sinking into what Secretary Chamberlain describes as "a condition of barbarism," have been obliged to grant financial assistance from the home treasury, even though they all allow their islands to impose heavy customs duties, I think we must prepare ourselves to discover without surprise that even ingenuity and ability cannot do for Porto Rico's finances all that we were inclined at first to expect.

## RELATION OF THE COLLEGE AND UNIVERSITY TO HIGHER COMMERCIAL EDUCATION.

BY EDMUND J. JAMES.

The movement in this country for college and university training for the future business man seems to have entered within the last year or two upon a new era in its history. Twenty years ago, when I first began to insist that our business classes stood in need of higher special or professional education, and that this education should be given in our colleges and universities, my voice was like that of one crying in the wilderness unheeded either by the business world, on the one hand, or by the college world on the other.<sup>1</sup>

Even up to within ten years only one institution of high rank had been found willing to move in this direction and to accord a half-hearted and timid support to the idea. To-day, at least a dozen of our leading institutions, and in this list one-half dozen of the most prominent institutions, have decided to organize departments whose primary function is that of furnishing a higher training for commercial life.

The University of Pennsylvania lead the way nearly twenty years ago by the establishment of the Wharton School of Finance and Economy in 1881, though the real work was not begun until 1883.<sup>2</sup>

The University of Chicago, although its original announcement in 1892 included the scheme of a College of of Practical Affairs, did not carry out the plan until July 1,

<sup>1</sup> Cf. List of monographs, addresses, etc., on higher commercial education, appended to this paper.

<sup>2</sup> Cf. Note 1, p. 162.

1898, when it opened a College of Commerce and Politics. The University of California began similar work in its College of Commerce in August, and the University of Ohio in September of the same year. Columbia University worked out a plan for a four-years' college course in the year 1899, which will be put into working operation as soon as funds can be obtained. In the year 1900 the following institutions inaugurated the work: Dartmouth College, in the Amos Tuck School of Administration and Finance; the University of Vermont, in its Department of Commerce and Economics; New York University, in its School of Commerce, Accounts and Finance; the University of Michigan, in its Special Courses in Higher Commercial Education and Public Administration; and the University of Wisconsin, in its School of Commerce.<sup>1</sup> The University of Illinois has requested the legislature for an annual appropriation of \$17,500 to defray the expenses of such a department, and it is announced that the University of Iowa will make a similar request.

Now what is the real force underlying this movement and what is the cause of this sudden, and to many people, unexpected acceleration within the last three years? What ground is there to suppose that this progress is to continue in the future?

The explanation of this remarkable advance is found, in my opinion, in two circumstances—a growing recognition on the part of our colleges that there is a wide and unexploited field open to them, which it is their duty to occupy and cultivate, and at the same time a growing demand for higher education in our business classes themselves and a consequent turning of their attention toward the existing centers of higher education

<sup>1</sup> Cf. Note 2, p. 163.

as a natural place to find aid and comfort. It is only another formulation of the same proposition, a sort of synthesis, so to speak, of these two elements, when we say it is the outcome of a rising standard of education in general in the community at large, and of an increasing belief in the value of a special, technical, professional education in all departments in which such training can be of use.<sup>1</sup>

The general tendency thus described has shown itself of late in all civilized countries alike; England, France, Germany, Belgium, Austria, etc. The new Teaching University of London has recognized the existence of this need in modern English society and provided for its satisfaction by establishing a separate and distinct faculty.<sup>2</sup>

The University of Leipsic has approved the experiment by according a valuable and striking recognition to this movement.<sup>3</sup>

Belgium has given the movement a legal status by providing for schools of Commercial Sciences in two or three of its universities, and by raising the Commercial Institute of Antwerp to the rank of a University Faculty.<sup>4</sup>

<sup>1</sup> Cf. no. 10 in list of monographs, etc., relating to commercial education appended to this article.

<sup>2</sup> The University of London Act of 1898 and the Statutes made for the University of London by the Commissioners appointed under the said act (printed February 16, 1900), provide for a special Faculty of Economics and Political Science (including commerce and industry). This faculty in its original form consisted of ten members.

Cf. also Regulations made for the University of London by the Commissioners under the University of London Act of 1898. (Printed March 1st, 1900).

<sup>3</sup> Cf. *Erster Jahresbericht der Handelshochschule zu Leipzig*. Leipzig 1899.

<sup>4</sup> Cf. *École des Sciences Commerciales et Consulaires*. Université Catholique de Louvain. Louvain 1900. Also: Université de Liège, *Extraits des dispositions législatives*, etc. Liège 1900. (page 57).

If other European countries have not as yet given as distinct an endorsement to the view that universities should undertake this function, it is largely because of the existence in those countries of certain high grade commercial colleges, which satisfy the demand fairly well, and because of the heavy-footed gate of their universities in general when any innovation is proposed.

With us, on the contrary, circumstances are different. On the one hand we had and have no separate commercial schools of high rank; that is, of college or university grade; and on the other, our colleges and universities are in a position to respond more quickly to special public needs than those of Europe. Our system of higher education has many defects, but one of its advantages lies in its close touch with the common life of the people. This acts in some ways as a hindrance, since it tends to keep the intellectual level of the institution near that of the average of the community; and this sometimes means near to a dead level of mediocrity. But the scheme has at any rate the virtue of its defects. The steady and continued dependence upon the public for funds makes these institutions quickly responsive to the real needs of the community. Our device of governing boards—non-expert bodies of business and professional men—renders this contact between the people and higher institutions all the easier and more vital, and through these boards—responsible directly or indirectly for the funds necessary to keep the institutions going—the life blood of the community can pulsate into the very arteries of college and university life; thus, to some extent, preventing that stiffening and exclusiveness, that Phariseism, which is the ever present danger of all higher institutions of learning, and especially of those which are self-governing bodies.



As a result of this and other circumstances, it comes about that every American institution is compelled to ask itself "Am I doing for the community all that can be reasonably expected of me?" "Am I working properly the whole field which naturally belongs to me and which I must work if the highest interests of the community are to be subserved?"

In answer to this question, kept perpetually before our higher institutions, among other forces, as already suggested, by the chronic need of money characteristic of them one and all, we have seen an unexpected and enormous expansion of our American college and university system. It was natural that when the college began to emerge into the university it should undertake first of all to provide for the education of those classes, which by long tradition in the Old World had come to look upon the universities as their institutions par excellence, viz., law, medicine, and theology. The profession of teaching was taken care of, partly by the fact that many of the positions were filled only by clergymen, and partly by the fact that the community was long satisfied with the incidental preparation for teaching, which a man could obtain by completing the ordinary college course. With the development of graduate schools the profession of teaching received its special faculty. In the meantime, the university was developing in other directions, viz., those of offering special training for the dentist, veterinary surgeon, farmer and engineer, and thus a large number of new callings was brought within the charmed circle of those for whose preparation the university exists.

It was plain to the student of education that if there was a class left in the community whose members needed or desired special higher training, and for whom

a special course could be worked out of college character and college grade, calculated to assist them in their future careers, such a class was sure sooner or later to be considered as properly belonging to the clientele of the university.

Such a class exists to-day in the enormous number of men engaged in various branches of business in the United States, for which a higher training is useful or indispensable. It was, therefore, a matter of logical necessity for the university to reach out and try to satisfy the legitimate demands of those classes, under penalty of seeing itself shut out from that reasonable influence over their lives and careers, which belongs to the organization affording the professional training of any class, and in addition perhaps of seeing a new kind of institution grow up, which, in answering the demand for this training, would divert from the university untold sources of strength and power.

Of course, this result was not reached in the university itself without grave contest. It was asserted, with a certain show of reason, that there was no need of offering any new facilities in this direction, since the public was satisfied with the existing opportunities. This was proved by the fact that there were already young men taking the old college course, or at least pursuing studies within the wide limits of the new elective system, who were looking forward to going into business, and that they seemed well satisfied with the course that they were taking; that, in a word, for this calling, as had been claimed in regard to so many others, the proper training was simply the traditional literary and historical education, making its subjects first of all well educated gentlemen, and then trusting to them to make their way in the business world by the

aid of that developed and disciplined intellect, which the severe training of the present courses secures. Furthermore, it was doubtful whether it was a good idea for a young man to go to college who intended to go into business, since he would be wasting on college benches the very years he needed most for learning the details of his future calling; and more important than all, there was no well defined curriculum, which a college could conscientiously recommend to a young man as worth his while to take, at all similar in character to the courses in law, medicine, or theology.

These arguments, combined with the lack of money to undertake new functions, have kept most of our institutions from organizing such departments up to the present.

The answer to the first argument is simple. The fact that there are many men who take now a college course and then go into business,—it is claimed, I believe, that over 30 per cent. of the Yale graduates do, as a matter of fact, go into commercial life—does not prove that these men prefer such a course to one better adapted to their needs; and still less does it prove that there are not hundreds and thousands of young men in the country who do not at present go to college at all, but who would go if they felt that they could get something of more immediate benefit to them than the old-fashioned curricula, or the old-fashioned studies. It is doubtless true that if the only higher institution in the community were a law school, many young men would take this course, even though their purpose were to practice medicine; but this does not prove that a law school is the best, or even a good course of preparation for medicine, nor that the demand for medical education is fully met by the law school.

This argument has, however, a certain practical weight and is heard most often, perhaps, among business men themselves. It is, however, the same old objection which has been raised against higher education in every department, viz. : that young men should begin with the A, B, C, of the business or profession in practical life rather than waste their time on theoretical courses in college. The old-fashioned way to study medicine was to begin by harnessing up the doctor's horse, as he prepared to go his rounds, following this up by taking medicine to the patients, and washing and cleaning the mortars and pestles used in their preparation. The lawyer began by copying papers, and the merchant by sweeping out the shop ; the book-binding apprentice, by washing the dinner dishes for the housewife, etc. But this idea has already been given up in the case of certain important callings, and must gradually disappear in the case of many others.<sup>1</sup>

As to the second point, there is undoubtedly some danger that the young men who spend from seven to eight years in the study of Latin, Greek and mathematics, or even in the study of French and German, and natural science, may acquire, if not a taste for literary callings, at least a distaste for mercantile life. But this does not prove that the pursuit of a higher course of study, which should be related more closely to their future work would have the same effect. The study of the history and methods of insurance, for example, in all their different aspects, need not of itself destroy all interest of young men in the business of insurance as a practical career ; on the contrary, it would very probably increase the

<sup>1</sup> Cf. no. II in the list of monographs, etc., on commercial education appended to this paper.

student's interest in the subject, and the knowledge of its wider bearings might well lighten the burden of its routine, as well as sharpen the intellect in its pursuit, and in so far qualify the candidate for even the more technical sides of the work.

As to the third objection on the part of college men, that there is no well recognized curriculum which can with a good conscience be recommended to a young man as likely to qualify him better for his business life, we must admit that this proposition has been true down to a comparatively recent period, and is even yet in large measure true. But this has been the case in the early history of all professional and technical study. Compare the curriculum of the law school at Harvard to-day with that of the first law school in the country, or the present medical school in Harvard with the beginning of this school a century ago, or present day technical training with the curriculum for the first schools of technology.

We have not, it must be admitted, worked out as yet any body of doctrine or group of studies, theoretical or practical, which will compare favorably with the system applied to law, medicine, theology or engineering. But we have at least the beginning of such a curriculum, and, even, as it is, a course worth the while of young men to take who desire to learn something of the history and wider bearings of their future callings; indeed, something which it is worth their while to take as a mere element in a liberal education, if nothing else.

And in any case, we must begin at some time to work out such a curriculum, and why not now as well as ever?

But the present remarkable development has come about not only because our colleges and universities have begun to reach out, driven by the law of their own internal development, to enter this new and unoccupied

field, but the business world on the other hand, has begun to feel the need of such training and to turn naturally toward the great centers where other callings and professions receive help. It was a Philadelphia merchant and manufacturer who first proposed to a leading institution the desirability of supplying this need and offered to assist it financially in organizing the work.<sup>1</sup>

And it was the American Bankers' Association, which, attracted by the underlying thought and idea of the Wharton School of Finance and Economy, first urged in a powerful and effective way on our higher institutions the desirability of organizing similar departments at other points in the country.<sup>2</sup>

It has been, as a rule, business men who have stood behind the movement, either as endowers of schools or departments, or members of boards of trustees, in such a way that the efforts of those college men who believed in the movement could be made efficient. Notably in the movement at Columbia, which it is true has not as yet resulted in the actual establishment of a department, it was the New York Chamber of Commerce which supplied the energy necessary to carry it to its present development.<sup>3</sup>

Now I take it that this has come about from several different causes. In the first place, successful business men desiring that their sons should succeed them in business, yet desiring also that they should become

<sup>1</sup> Cf. Plan of the Wharton School submitted to the trustees of the University of Pennsylvania by Joseph Wharton, Esq., Philadelphia, 1881.

<sup>2</sup> Cf. Education of Business Men, I, II, III, IV, American Bankers' Association, 1891-1894.

<sup>3</sup> Cf. Report of the committee of foreign commerce of the Chamber of Commerce of the State of New York, on the subject of commercial education. New York, 1898.

educated men of the world, as well as successful business men, felt that the old curriculum did not offer the sort of thing which they wished. They did not see why their sons could not be learning something bearing on their future business while acquiring a liberal education.

Various attempts have been made to satisfy this difficulty in different ways, and lately the American Bankers' Association has drafted a scheme for higher education in the principles and practice of banking for clerks and officers connected with banking institutions.<sup>1</sup> The same plan has been suggested to the railways of the country for advanced courses in the principles and practice of transportation for their employés.<sup>2</sup> And thus the business world has shown, in more directions than one, a growing feeling of the need of some such opportunity for higher commercial training.

Another call has come from many parents, a number growing more rapidly every day, who are able and willing to send their sons through the secondary schools, and would like to send them through the higher schools, if the latter could offer them a curriculum preparing more directly for business than the literary courses which are considered the chief feature of our present college curriculum. This call is becoming more and more imperative.

We should miss another important element if we did not call attention to the fact that business men themselves are each day becoming more clearly aware that lack of suitable education is one of the most serious defects in their employés, and that a proper training

<sup>1</sup> Cf. Address by W. C. Cornwell, President of the City National Bank, Buffalo.

<sup>2</sup> Cf. Address by Walter G. Berg, Chief Engineer of Lehigh Valley Railroad.



would increase greatly their value to them, and consequently to the community.

Modern business is becoming more complex and requires a higher order of talent and a higher degree of preparation in order to secure success than ever before. Our business men are coming to see that in the great world struggle for trade and industry, that nation will succeed best—other things being equal—which has provided for the most careful and complete system of education—adequate training for all the national talent of every kind—and in such a system opportunity for higher commercial training must also be included.

It is only another way of stating the truth contained in the above proposition when I say that this development has come about through a rising standard of education in the community as a whole and a growing appreciation of the value of special training for specific callings.

The modern world insists, as never before, that the classes aspiring to leadership in any department of life, shall be educated and cultivated. The increasing wealth of society results in a new demand for the things which wealth can help provide, and among these, higher education—intellectual, moral, esthetic. The business classes are to-day ruling not only our own society, but that of Europe, to a greater extent than ever before. It was formerly the orator, the general, the priest, the noble, who led and governed society and were the models for the youth of the community. It is to-day, the great banker, the railroad president, the manufacturer, the great merchant, the great business organizer in any direction, who controls our life more and more. With their accumulating wealth, they feel the necessity

themselves of higher education, and society demands it of them as never before.

There is, moreover, a growing belief in the efficacy of professional education and special training as a valuable or indispensable element in the preparation of the young man for his future calling. A century ago almost nobody in this country thought of the necessity of school training for any calling or profession. The lawyer, physician, clergyman, engineer, farmer, teacher, sought his preparation, not in some technical school, but in the office, the study, the store, the shop, the field. To-day the victory of the well-planned curriculum over the haphazard training of the shop, the factory, the office, the store or the farm, is well assured, and it is only a question of time when the same thing will be true of mercantile and commercial life also.<sup>1</sup>

Such is a brief description of the present condition of the question as to what is the relation of the college and university to higher commercial training. It is also an explanation, and to a certain extent, a justification, of the development which has thus far taken place. An examination of what has taken place up to the present and a search into the causes underlying this development, seemed to me, on the whole, to be the most satisfactory way of setting forth my views upon this subject, and I may now proceed to formulate my ideas in a little more definite way, as to the present and future policy, and submit the result to your consideration.

I believe the American university ought to take the same attitude toward the higher training of the future merchant, railway or insurance manager, as it has so long taken toward the professional education of the

<sup>1</sup> Cf. no. 5 in the list of monographs on commercial education appended to this paper.

future lawyer, physician or engineer. In other words, I believe it should recognize it as one of its proper and necessary functions to provide the best facilities of which it is capable for this training, and I am happy to say, that in my opinion the question is no longer whether the American university shall take this attitude, but simply how it can recognize this function and carry it out most efficiently and satisfactorily.

The question as to what should be the fundamental element in the higher education and training of the future business man, is to me comparatively simple. It should be those branches of science which deal with the departments of life to which business belongs. Business is, of course, a social and economic phenomenon, and to some extent, a political one, and consequently the study of the political and social sciences, using that term in a large sense, is the natural occupation of the man who is preparing himself for a business career.

I cannot, of course, on this occasion enter into an extended discussion of the particular branches which ought to be included in such a curriculum, but of all the political and social sciences, it seems to me that economics should be accepted as the fundamental element in any such course. It is just at this point that the interest of this association is most intimately involved. The science of political economy has the same relation toward this whole department of education, as mathematics to the preparation of an engineer, or as physiology or anatomy to medical training. It has, moreover, the added advantage of being the most highly developed of all these subjects, theoretically or practically, both as a matter of science and as a matter of pedagogy. The man who grapples in earnest with problems of economics will secure, if nothing else, a mental discipline

which may well be compared with that which the study of mathematics or other abstruse subjects may give.

This has been my idea from the beginning, and I am gratified to find it substantiated and developed theoretically and practically in so many of the strictly university departments which have been organized for this purpose either in Europe or in the United States.

Political economy, theoretic or applied, includes, of course, a wide range of subjects, such as finance, banking, insurance, etc., etc., at least in their general aspects.

But I am not content with the introduction of these subjects alone. I believe that all those subjects necessary to an understanding of the complicated industrial mechanism of modern life should be included within such curriculum, commercial geography, commercial law and similar subjects.

I should go still further. I should accept any practical subject which can be made a serious intellectual pursuit, if by so doing, I could advance practical knowledge and increase intellectual training. Thus, for instance, the whole system of accounting, or as it is sometimes called with a sneering connotation "bookkeeping," I should make an element in all such curricula. The theory of accounting is as strictly a scientific subject as the theory of political economy itself, and steady application to this subject offers a stimulating and valuable mental discipline. It is, moreover, an efficient means of presenting the facts of industrial organization in a concrete and direct way. The study of bookkeeping brings to light, in one form or another, the deeper underlying problems in connection with the organization of business. The study of municipal accounts offers, for example, a direct road to understanding the difficulties and the mechanism of public

corporations. I would develop, in a word, so far as possible the practical as well as the theoretical sides of insurance, banking and similar departments of industry. I find, among others, the following subjects already offered in the curricula established in these new departments: economic geography, history of commerce, business organization and management, commercial law, transportation, money and banking, materials of commerce, contracts, personal property, theory of accounts, auditing, insurance, statistics, corporation finance.

I need not here go into any further detail; I desire only to emphasize the fact that in my opinion any curriculum for higher commercial education which does not give reasonable attention to what might be called the practical aspects of business life will not accomplish the best results.

I am not only in favor of the universities undertaking this function of providing higher education for business men, but I am in favor of putting these elements into such a shape that a young man can feel that he is following out a systematic course of study while pursuing it. I believe also that the university should announce in a definite form that it proposes to offer a curriculum for the benefit of those men expecting to go into business, exactly as it announces that it has a law school or a medical school. I make this statement because some of our universities, which have in the wide range of their elective studies a great many of these elements which I have mentioned, refuse to regard it as desirable to add the other subjects which I have suggested, or to call attention to the fact that they offer facilities which would be worth the while of young men to take advantage of, before entering upon their active business lives.

It seems to me that it would be just as reasonable to expect the average young man to select the subjects without assistance which would be of special value to him as commercial training from a list of a thousand elective courses, as it would be to expect the young man looking forward to law to select in the same way the subjects which would be of most advantage to him, if these legal subjects were thrown into a pot along with the rest. I believe that it is the duty of the university, as such, to assist in educating the community to the desirability of taking higher professional and technical education; and one of the most efficient ways of doing this—granted that the university has undertaken this function—is to call attention to the fact that it claims to be doing that very work. The institution which offers such facilities and does not take the pains to inform the public of the fact is not, in my opinion, doing its duty toward the community. We college men sometimes forget what an extremely small part we play to-day in the life of the American people. To the average American boy the college or university is still an unknown territory, with the mention of which he connects no very definite idea. Many of them do not know whether there be any university or not, or if there is such a thing, what it is, and what its purpose. But when you tell the boy who has a notion that he would like to be a physician, that the university offers the chance to learn how to become a physician, and if you tell the boy who would like to be a better farmer, that the university offers facilities for acquiring that added information and experience he would like to have, the notion becomes definitely concrete to him, and he looks forward with pleasure and zest to the idea of attending such an institution. When you say to the boy who is going into

business that the university offers him the opportunity to prepare himself for such work, you will find that his attitude toward the university will be an entirely new one, and that an entirely new element of the community—a most numerous and most important element—will have been brought within the influence of the university.

The next important point relates to the form of organization of this work and its integration into the rest of the university system. I think there is little doubt that this will vary with each institution and its needs, and I think it is desirable that there should be the utmost liberty in this respect for the fullest and freest experimentation. My own feeling—based upon thirteen years' experience in connection with the Wharton School of Finance and Economy, in which we tried many different schemes—is that the typical form will be the regular four-years' course paralleling the traditional college course, but strongly inclining in spirit and form, rather to the technical than to the literary course.

Of the existing departments, Pennsylvania, Chicago, California, the Columbia scheme and the University of Wisconsin, have adopted the four-year plan and each with the exception of the Columbia plan offers as the crown of the work a bachelor's degree. The Universities of Michigan and Vermont have adopted in essence the two-year course, covering the last two years in college, admitting all who have completed the sophomore year in any course in college; while Dartmouth college has adopted a two-year plan, admitting, however, only those who have completed the junior year, thus making the second year graduate in character.

And finally, if as President Hadley has told us in his address before the Vanderbilt University at its recent



celebration, the chief purpose of the university or college is not the imparting of information or the giving of a special or technical training or the development of scholars, but the securing of that breadth of view and widened sympathy which is the result of the personal intercourse of thousands of young men through a period of three or four years under college and university influence, how vastly will this influence for good in every direction be strengthened and increased, when in addition to the hundreds of young men in our colleges now preparing for the professions we shall have other hundreds preparing for commercial life. And this will surely be the case if the universities recognize their duties toward this great and growing class of our community. If the business classes are destined to have an ever-increasing influence in our society how necessary it is for public welfare that as many members of these classes as possible shall come under the influence, for a longer or shorter time, of those great forces which make up our modern university!

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NOTE I.

THE WHARTON SCHOOL OF FINANCE AND ECONOMY.

The Wharton School was founded in 1881. Its course was at first only two years, beginning with the junior year in college. Its curriculum was composed largely of the ordinary college subjects taught by men already appointed to teach in the university. The experiment naturally failed, and there was talk of handing back the endowment to Mr. Wharton, on the ground that there seemed to be no special demand for such instruction. It was decided, however, to make a new departure. Albert S. Bolles was appointed Professor of Mercantile Law and Practice, in February, 1883, and entrusted with the organization of the department; Robert Ellis Thompson was retained as Professor of Political Economy; Edmund J. James was called as Professor of Public Finance and Administration; and John Bach McMaster as Professor of American History, political, constitutional and industrial, both beginning work in December, 1883. A new era was

thus opened for the school, though the two-year curriculum, which was open to students upon the completion of the first two years in college, was retained.

When Albert S. Bolles accepted a position in the State government at Harrisburg, Edmund J. James was entrusted with the practical administration of the school, and later appointed Director. For admission to the curriculum, now lengthened from two to four years, were demanded in general the same requisites as for the classical or technical colleges. Many new courses were added, with a result of strengthening and establishing the department more firmly. Instructors were appointed in the theory and practice of accounting, transportation, banking, journalism, and other practical subjects, besides additional instructors in economics and politics. The four-year plan thus adopted by the Wharton School has been accepted, as indicated in the text, by most of our institutions which have undertaken this work. As an evidence of the demand for this kind of instruction, the fact may be stated, that while the Wharton School course is one of a large number of elective courses offered in the University of Pennsylvania, it has a greater attendance than the average of the courses. The following table shows the attendance from 1895 to 1901.

1895.....	113	1898.....	87	1901.....	135
1896.....	97	1899.....	94		
1897.....	101	1900.....	125		

#### NOTE II.

##### THE UNIVERSITY OF WISCONSIN SCHOOL OF COMMERCE.

As indicative of the interest which the new departments have created, the following statement made by Professor William A. Scott, Director of the new School of Commerce in the University of Wisconsin, is of interest :

"Eighty-four students have registered in our School of Commerce up to date. Of these, 61 are freshmen, 17 sophomores, 3 juniors, and 3 specials. Of this total, 65 have come to the University for the first time this year, and 19 have transferred from some other courses in the University. In order to find out exactly what proportion of the students would have come to the University had not the School of Commerce been established, I sent a circular letter to each one asking the three following questions :

1. Would you have come to this University if the School of Commerce had not been established?
2. Would you have gone to some other university if the School of Commerce had not been established?

3. If you would have entered this University in any case, what course would you have taken if the School of Commerce had not been established?

I received replies from every one of the students, with results as follows:

Twenty-six reply that they would not have entered this or any other university had not the School of Commerce been established. They would have gone instead directly into business. Three are uncertain, but state that they would have probably taken a special course in some college or university, selecting such studies as would, in their opinion, best prepare them for business. Of the remainder, 24 would have entered our College of Letters and Science, 9 the Civic-Historical course, 8 the General Science course, 5 the English course, 2 the Modern Classical course. Of the remainder, 6 would have entered the Engineering School, 4 the Law School, and 2 the College of Agriculture. I interviewed the 12 last mentioned students, and discovered that in every case they would have taken the Engineering, the Law, or the Agricultural course, not because they wished to make themselves engineers, lawyers or farmers, but because in the opinion of themselves or their fathers, these courses furnished a better preparation for business than the courses in the College of Letters and Science.

It seems to me that these statistics indicate very clearly the need for Schools of Commerce. At any rate, we are satisfied that in the establishment of the School we have reached a new constituency which has not been previously attracted by our University courses."

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#### MONOGRAPHS, PAPERS, AND ADDRESSES ON COMMERCIAL EDUCATION

BY EDMUND J. JAMES.

1. Das Studium der Staatswissenschaften in Amerika. Conrad's Jahrbücher for Nationalökonomie und Statistik N. F.: VII Band. Jena, 1883.
2. Outline of a Proposed School of Political and Social Science. Philadelphia Social Science Association, 1885.
3. The Study of Politics and Business at the University of Pennsylvania. Philadelphia, 1889.
4. Schools of Finance and Economy, Address before American Bankers' Association. Saratoga, 1890.
5. Economic and Social Aspects of Public Education. American Institute of Instruction. Boston, 1891.
6. The University and the Higher Education of Business Men. National Education Association. Toronto, 1891.

7. A Plea for a Commercial High School. Address before the American Bankers' Association. San Francisco, 1892.
8. Philadelphia's Need of a Commercial High School. Address before the Philadelphia Board of Trade. Philadelphia, 1892.
9. Education of Business Men in Europe. Report to the American Bankers' Association, New York, 1893. 2nd edition, Chicago, 1898.
10. What Should be the Curriculum of the Commercial High School? Address before the Educational Club of Philadelphia, 1894.
11. The Business Man and Higher Education. Missouri Bankers' Association, 1896.
12. The State University and the Higher Training for Business. Address before the State University of Missouri, 1897.
13. The Modern University. Commencement Address before the University of California, 1898.
14. The Public High School and Commercial Education. Report of the Chicago Educational Commission, 1898.
15. The Function of the City University. Commencement Address before the University of Cincinnati, 1899.
16. Commercial Education. Monographs on Education in the United States. Department of Education for the United States Commission to the Paris Exposition of 1900.

Nos. 1, 2, 5, 13, and 15, discuss the subject of commercial education only incidentally as a part of the general work of the university or as that of special departments of politics and economics.

## THE STUDY OF ECONOMIC GEOGRAPHY.<sup>1</sup>

[Abstract.]

BY L. M. KEASBEY.

Though commonly considered separately, the two studies, economics and geography are rightly correlative. As it is, however, economists are content to generalize the data of geography, and geographers have seen fit to ignore the principles of economics.

The principles of economic geography must outline economic theory, showing how the general laws of demand are dependent upon the particular conditions of supply. Hence arises the necessity of Economic Geography, *i.e.*, a descriptive study of the natural resources of the earth, and their application, through the process of production, to the satisfaction of human wants.

Geographers, on their side, offer no systematic description of the phenomena of civilization. Failure of political, historical, commercial, and general geographies in this respect. Systematic geography is admirable as far as it goes, but it concludes with description of organic phenomena, or the animal world. There is further need for a systematic description of human development and of the spread of civilization. Economics is chosen as the point of departure for such a study, because the fundamental distinction between man and beast, between super-organic and organic phenomena, is economic in character. The new department of geography should, therefore, be called Economic Geography. Eco-

<sup>1</sup> Mr. Keasbey had made arrangements for the publication of his paper in the *Political Science Quarterly* before it was put upon the program of the American Economic Association, accordingly an abstract only is printed here.

nomie geography accordingly depends upon economics, describes super-organic phenomena, recognizes a utilitarian purpose in nature, and considers the world fitted for the ascendancy of civilization.

#### METHODS OF ECONOMIC GEOGRAPHY.

The earth may be divided into general and local environments. General environments influence human development directly and constitute ethnic types. Local environments affect human development indirectly and institute economic standards. General environments should be studied under the following heads: orography, hydrography, meteorography and chrematography, and then plotted off into local environments, *e.g.*, jungle environment, arctic environment, barren environment, forest environment, plain environment, oceanic island environment, desert oasis environment. The various local environments give rise to different productive activities, *e.g.*, hunting, fishing, root grubbing, root culture, herding, arboriculture, and agriculture which in turn institute corresponding economic systems, *e.g.*, domestic economy, tribal economy, clan economy, patriarchal economy, communal economy.

Having studied these economics separately and in isolation, we may show how, by conquest of agriculturist by pastoral people, the feudal economy is established. Next, how by growth of industry and commerce, feudal economy is transformed into the plutocratic economy. Finally, how by institution of mining and manufacture the plutocratic economy develops into the capitalistic economy. We may thus set forth geographic distinctions between eastern and western civilization, and outline economic development of western civilization from a geographic point of view.

THE PLACE OF THE SCIENCE OF ACCOUNTS  
IN  
COLLEGIATE COMMERCIAL EDUCATION.

BY C. W. HASKINS.

*Mr. President, and Gentlemen of the American Economic Association :*

I am asked to address you on "The Place of the Science of Accounts in Collegiate Commercial Education." This title is worthy to head an exhaustive educational essay. For the convenience of a brief paper, we may say that it recognizes a place for the higher accountancy in the higher commercial education, and that it indicates the usual reformatory "stage of inquiry" as to what or where that place is.

Inquiry, to-day, is the attitude, in a special sense, of all economic thought. Acceptable leaders of affairs are they who "listen to the voices" and are not too characteristically dogmatic. Silent brain-forces, urged on by the shifting of conditions, are spreading their tents far over the borders of traditional authority. The right ordering of the march of modern material civilization, with its bewildering inter-relations of interests, is a living, breathing question, involving, day by day, a million-fold entanglement of ever new inquiries. And with the unravelling of these questions, extending from the adjustment of international commerce, down to the problem of auditing an auditor, our modern economics has set itself, I believe, modestly and patiently to deal.

Practical economics, in this listening and learning attitude, and scanning the horizon of the general wel-



fare, has found a brother spirit in the teaching science; a science at once conservative and cautiously progressive; notably in love with the past, but essentially solicitous of the future. And this coming together of the economic and pedagogical sciences is now taking the shape of a compact that what the one shall accumulate, the other shall disseminate; and thus we have the present movement for the higher commercial education.

This important subject of advanced commercial education, familiar to the nations of continental Europe, is least of all understood by our friends the English; while to the English, on the other hand, we owe the introduction into the United States of the profession of public accountancy. According to a recent review article by the Hon. James Bryce, the phrase "a commercial education" meant, in the England of but a few years ago, something "cheap and nasty;" and that it now means anything more respectable, is due, he says, "not to reflection on the part of Englishmen, but almost entirely to the example of foreign countries, and, in particular, of Germany, France and Belgium." Had Mr. Bryce been writing on specific education in accounting, he would doubtless have particularized also Italy; possibly also the Netherlands; and would, I think, have written France, with its bureaucratic "*comptabilité*," before Germany. To the three countries first enumerated, we also, in the United States, owe much of our interest in general commercial education; while on the other hand again, we are but little indebted to them for our knowledge of professional accountancy. On the whole, therefore, the question as to the place of accountancy in collegiate commercial education has not been answered in Great Britain, where, notwithstanding a sturdy Scottish and English professional accountancy,

there was no general and comprehensive system of commercial education; it has not been answered on the continent, where, notwithstanding otherwise admirable systems of commercial education, governmental book-keeping has been too often the typical accountancy; and it must be answered in America, where conditions are evolving a profession of accountancy, side by side with a profession of economic administration.

I have often wondered what some Chaldæan school-boy of the days of Abraham would have thought of such a condition of things. We are told by the young science of Assyriology that Babylonian education, at least seven thousand years ago, was entirely commercial. Professor Sayce, of Oxford, thinks that this education began at about the age of five years; and Professor Jastrow, of the University of Pennsylvania, says that whether preparatory to a governmental, religious, literary, or business career, it was commercial in character from beginning to end. Assyrio-Chaldæan education included a complete knowledge of the vast commerce of this commercial people; an art of accounting as advanced as their clay tablets would admit of; and a thorough knowledge of business law. Our belief in the progress of mankind is staggered as we listen to the faint words, "commerce, accounts and law," that fall through long milleniums upon this modern economic and educational questioning of ours. An outline of Chaldæan commercial law which I have in manuscript would almost seem to have been made from the precedents of our own times. Under "promissory notes," we read of abstract notes; of titled notes; of interest bearing notes, divided into those providing for the payment of the interest and those "containing debts remaining unpaid;" then of notes coupled with collateral contract,

such as guaranty and mortgage—a mortgage, we are told, being always a first mortgage, and becoming “void upon payment of the debt.” Business combinations are divided into partnerships and joint stock companies; and we are told how they were formed, how they appointed their agents, and into what classes agents were divided and their legal powers and liability to third parties. The leasing of farm-lands, of water-lots, of houses, of all rural and urban properties was fully regulated; and all manner of payments, in money and in kind, in full, in part, in advance, with amount, date, and place carefully specified, were provided for. And all these, and the rest of a complete system of commercial law, were fully understood in the accountancy of those distant days.

We are attempting to answer this modern question in New York University. Our first thought was of a professional college of accountancy alone, which should cover all branches of the science and related studies, under university supervision and control. Then, as we became acquainted with this movement for the more general higher commercial education, and with the insistency of professional administration in the same direction, and the Council had consequently decided to add commerce and finance to our proposed curriculum, an alphabetical collocation was suggested of the words “accounts, commerce, finance,” as giving a kind of ascending importance to the title of our new college. Finally, when the pivotal place of scientific accountancy was fully recognized, the euphonic arrangement, indicative also of the place of the science of accounts in collegiate commercial education, was chosen which has given title to our School of Commerce, Accounts and Finance.

This pivotal aspect of accountancy calls for serious

consideration in the elaboration of curricula for collegiate, post-graduate and professional institutions of commercial education. Accountancy, indeed, is the viewpoint of economic administration; the "conning-tower" of the ship in the battle of business. In the plotting of the field, in the study of financial principles and methods of operation, the leaders of any business enterprise, how small or great soever, and whether individual or co-operative, private or semi-public, municipal or governmental, ought always to be within ready reach of their accounts, and to be able at any instant to "reference back" to this central starting-point. Accountancy, in its turn, as the vital gauge and monitor located at the very soul-centre of affairs, must be able to answer intelligently and instantly any question advanced from any direction with regard to the past, present, or probable future financial condition of an enterprise or of two or more related enterprises. And the greater in magnitude the enterprise and the volume of its business, and the more complicated the relations, and hence the farther removed from the grasp of the administrator in person, the more imperative is the necessity for detailed scrutiny and scientific control of financial accounts. And thus has arisen among us an accountancy in the secondary or higher educational sense, extending into an accountancy in the deeper scientific or post-graduate sense, and further into a recognized public accountancy in the strictly professional sense. And here, gentlemen, are aspects of an important and importunate line of study readily adjustable to every existing university system of commercial or economic education.

If by the "place" of the science of accounts in this education we understand its position in the curriculum, as well as its importance as a study, I would refer again

to its easy adjustability ; and I would add one word as to the facility with which the embryotic accountancy already found in our commercial courses may be expanded to its just proportions. This science seeks not so insistently a change of place in any educational system as a due amplitude for the place already granted. Accountancy is a science, upon which is founded a recognizable profession on a plane with that of medicine, theology or the law. It follows then, that, keeping always in view the end or issue of any course of economic study, an enlargement and rounding out of the "accounting" now seen in European and American educational programmes will be at least a good continuation of a respectable beginning. I would therefore advocate, for the present, as my modest contribution to this day's consultations, not any radical change of place or relationship in this important study, but a broadening of conception of such character and magnitude as will bring within the sweep of the course, and within reach of our prospective professional public accountants and our future administrators and their assistants, a comprehensive knowledge, according to the various requirements of future individual calling, of the theory of accounts, of practical accounting, of the historical development of accountancy, of the higher auditing and intelligent investigation, revision and origination of methods of accounting, and of the relations of accountancy with commercial law and with municipal and general government.

I am somewhat loath, as a professional public accountant, and therefore a plain man of business, to offer advice which may seem to trench too closely on the peculiar province of the professional teacher, or to attempt the formulation of definitions that our lexicographers will yet

gather better made out of the future writings of learned economists. I have been so often asked, however, to state what we mean by such expressions as "the higher accountancy," and what, with some degree of particularity, should be included in the study of this science, that I shall presume to venture one or two answering remarks in closing.

Accountancy is not bookkeeping; and the use of the qualifying terms "higher," "scientific" and the like, besides rendering our nomenclature less monotonous, enables us to emphasize this important distinction. "Un excellent teneur de livres," says the eminent author of *Manuel des Affaires*, "peut être un fort mauvais comptable." The routine writing up of account-books is an adjunct of financial and commercial activity with which the educated accountant must be thoroughly acquainted in its minutest details; but the phrase "an expert bookkeeper" is wholly misleading as to the aspirations of the informed and intelligent student of accountancy. He who understands the principles of this progressive, adaptable science would be able, under adverse circumstances, as the Chaldeans did, to pick up a lump of clay and express thereon a recording system of his own. Let bookkeeping itself be studied in the light of accountancy, and you have, wherever the calibre of the student is equal to the condition, an originator of methods and modifications of methods of keeping track of accounts and complications of accounts, and of diagnosing diseases of business and prognosticating the course of financial conditions. Accountancy, upon occasion, enters an establishment and calls, first of all, it may be, not for books, but for some little dusty bundle of vouchers, or, perhaps, an out-of-the-way fact recorded in some corner of a private safe wholly outside the domain of the book-

keeper's knowledge. And thus, if necessary, it goes through the details of the entire enterprise, accumulating a knowledge of the vital conditions of income and outgo. Once the entire truth is known, accountancy is planted thereon as a rock, an impregnable fortress, and stands as a mathematical demonstration as unassailable as fate, an oracle to be consulted with sincerity and respect.

As to a definite course of instruction in accountancy, I shall only suggest that this study be closely correlated with courses in commerce and finance, and especially with commercial law and business administration; and that however crudely elementary its beginning, it include in its progress, or better, perhaps, from its first general conception, a philosophical grasp of the theory of accounts, of practical accounting, and of auditing. More specifically, the course ought to comprehend the principles and purpose of accounts; an examination of the various modern systems and books of accounts; a detailed description and illustration of the accounts of individuals; of partners; of commercial, financial, manufacturing, transportation and other corporations; of municipal accounts; of federal accounts; the study of receivership, trusteeship, executorship, liquidation; the making out of statements of affairs; the verification of balance sheets and statements of profit and loss; and the rendering of general and special reports. To these studies, New York University adds lectures in the history of accountancy; and also, on account of the favorable location of our school in the heart of a great city, as well as to accommodate certain legal requirements attaching to the profession of certified public accountancy, we have recommended to our students a coincident experimental study in the office of a scientific accountant.



Our method of study is for the present founded upon the lecture system ; I trust, however, the day is not far distant when the interest of pedagogical authorship will result in giving us a worthy series of text-books in accountancy adapted to use in the United States.

#### DISCUSSION.

MR. F. H. DIXON : It is manifestly impossible for me, in the short space of time at my disposal, to touch upon all the points presented in the three papers which have been read. I shall confine myself, therefore, to the first paper. The need for commercial education requires no discussion. Every thoughtful and candid man admits it. We all desire to see business in better hands. I wish cordially to endorse all that Professor James has said in defense of this proposition. I agree again that it is the duty of the universities to call the attention of business men to the fact that such training is offered and to bring them to realize its efficacy and endorse the work. The question to what extent the course should be distinctly technical and practical is a difficult one, which experience must in large part solve. In general it seems to me unprofitable for colleges to play at banking or accounting. Rather should they fit for an intelligent appreciation of commercial procedure as it exists, with the faculty for criticism so developed that it can be brought to bear upon business in the way of discipline and improvement.

In his advocacy of a three or four years undergraduate course to meet the need for commercial training, Professor James, it seems to me, is taking a position that is inconsistent with his opening thesis, and I shall direct my remarks in the brief time allotted to me to the discussion of this one point, the place that commercial

training should hold in the general college or university course. I am led to the consideration of this question not only by the paper this afternoon, but by the examination of courses of study already established in some of the institutions. I have observed that in many instances the new course parallels, and in part supercedes, the regular college course. Such a policy, I maintain, is to be condemned. If we would make business a profession and take the same attitude toward it as toward a legal or medical training—the position which Professor James has defended—we are compelled to recognize the basis upon which rests the success of our other professions. A complete college training as a preliminary is coming rapidly to be regarded as requisite to entrance upon professional study. A thorough mental discipline is demanded for the equipment and development of the man as a man, and this is followed by rapid and concentrated effort toward the full preparation for the profession when the man is ready for it. Not all the schools of medicine and law yet require a bachelor's degree for entrance, but I think it may be truly said that they are working toward that end. The tendency is in that direction. Practical experience and educational thought stand united in opposition to the idea that the lawyer or physician of to-day can safely dispense with a preliminary college course, and if this position is sound for our existing professions, why can it not be maintained for the profession of business? Is business life so much simpler than law or medicine that the young man may secure all the equipment necessary in connection with work for the baccalaureate, and can we safely feel that under these circumstances he will appear in the community as well disciplined for business as are the lawyer and doctor for their professions?

If we would secure the best results, it is of vital importance that we should train the man first and the business man afterwards. To accomplish this end we cannot safely thrust aside the traditional four years college course, the work in mathematics, the ancient and modern languages, the laboratory sciences and the like. These subjects possess an accumulated power for discipline that, in addition to their inherent qualities, comes from their having long possessed the field, from the excellence of their teaching force, from the completeness of equipment in text books and laboratory facilities. They have demonstrated their right to be there and to substitute for them in part courses in commerce is to replace a thoroughly satisfactory and well tested discipline with an untried one of doubtful value. History, economics, sociology and the like subjects, in their advanced stages, that train men for a broad outlook on business life and a wise discrimination in industrial affairs are studies essentially of judgment and should come late in the course after the thinking faculties have been organized and disciplined. The best results will not be attained by beginning this line of work too early.

Again, if we would elevate business into a profession, we must take the college into business and not business into the college. To substitute for the traditional college curriculum, a four years' course leading to the degree of Bachelor of Commerce may broaden the standards of the college, or it may narrow them according to one's point of view, but it will do nothing, I maintain, to elevate business into a profession. It leaves the young man practically where he is now, as far as equipment that will count is concerned. He has no added discipline that will make its impress on business affairs. A two

years' course of study carefully organized with the purpose of concentrating the student's attention upon his chosen career, pursued with zeal and with the incentive that comes from his preliminary training, is productive of far greater results than a scheme which takes the freshman as he enters college, and offers him a course of study scattered over the four years of college residence.

This argues for entrance upon the work as late as the beginning of the senior year, and carrying it to its completion with a year of graduate work or possibly two, a training that shall eventually be as complete as is offered to those entering the recognized professions. It is unnecessary here to present at any length the arguments in favor of graduate instruction, but there is one phase of it that applies with perhaps greater force to the young man preparing for business than it does to others. I refer to its influence upon the man's point of view. Freed from all the distracting obligations and associations of undergraduate life, he enters upon the work with a new enthusiasm and a serious mindedness foreign to his previous experience. He begins for the first time to think independently, and by throwing himself heart and soul into his work is able to accumulate more reserve power in the one year than he had acquired in the previous four.

One of the objections raised to this plan by business men, and those contemplating a business career is the time demanded. It seems to be a generally accepted idea that a man must begin young in business in order to master its details. Apprenticeship in a given business is assumed to be of a fixed length and the earlier the man enters upon it, the sooner will he be the possessor of a lucrative and responsible position. A thoughtful business man said to me recently, "Will not this

course of study start the young man in business too late, and thus seriously handicap him as compared with his fellows, for he will be obliged to serve his apprenticeship with the others?" To this it may be replied that we must discriminate between young men. Such higher commercial education as is here proposed, is not at present possible for the rank and file, but is rather intended for those who will eventually become leaders in business. For this class the time spent in thorough preparation is not lost. The graduate of a commercial course must serve his apprenticeship with the others, but it is not unreasonable to assume that he will succeed in shortening the probationary period materially and as he will have decidedly extended the limit to his advancement, the superior position finally attained will more than compensate for the time consumed in preparation.

The objection may be raised that such a course will attract but small numbers. If true, it seems to me that the correct solution of the educational problem is the important thing, and that numbers can be allowed to take care of themselves. But it has been demonstrated time and again that the raising of the standard is not a bar to entrance. It may be laid down almost with mathematical precision that numbers increase in direct ratio to the elevation of the standard. Let us, then, put into practice what we advocate in theory. Let us elevate business into a profession, equivalent in equipment and standard to our other professions, and we shall occupy a position that can be defended educationally, and justified by its practical results.

MR. WILLIAM A. SCOTT: I have been extremely interested in the program of the afternoon, and inasmuch as Professor Dixon's discussion has brought to a head

points that seem to me to need emphasis and discussion, I shall confine myself for the most part to making a few observations on the subjects which he brought up. Before I do so, however, I wish to say that the point of view presented by Professor James appeals to me very strongly. There is abundant evidence in proof of the fact that the demand for a business education is strong among business men, and that they will appreciate very much, and take advantage of, any opportunities that the universities may see fit to put in their way. If an investigation be made; I think it will be found that large numbers of young men who are entirely competent to enjoy the advantages of university courses are not now getting them. A considerable proportion of the best men coming from our secondary schools go directly into business, because the college course does not offer what they want. We have proof of this fact at Wisconsin. Last October we started our School of Commerce, and a goodly number entered it as freshmen. I made an investigation to find out from what sources these young men came, and learned that forty to fifty per cent. would not have attended our University or any other if such a course had not been offered, and that of the remainder a considerable number would have taken a law, an engineering, or a short special course, because they believed that in this way they could procure a better preparation for business than the ordinary college or university course could afford them. These two classes combined constitute about eighty per cent. of those who entered our school. I shall be interested in knowing what results are found along this line by persons elsewhere engaged in this work.

I wish to emphasize another fact, namely, the importance of giving a technical trend to this particular branch

of education. On this point, I am compelled to disagree with Professor Dixon. I think we shall utterly fail to reach the class of students we ought to attract, and shall fail to meet the legitimate demand of the business world, if we simply make a recombination of the ordinary courses in history, economics, etc., and label them courses in commerce. Such courses must, of course, be basal in this branch of education, but we must add to them genuine technical courses before we can hope to furnish the sort of training that is needed. Between the sort of courses which Professor Dixon recommends and such technical information as can only be procured in the actual prosecution of business, there is a wide gap, and it is this gap which needs to be filled up by technical courses of study developed for the particular purposes of this branch of education.

The main problem before those who are interested in the technical education of business men, as I see it, lies right here. As Professor James has very well said, we must furnish to students in commerce a training similar in character to that which is now supplied to engineers in engineering schools, to farmers in agricultural colleges, etc. This can only be accomplished through the formulation and successful working out of genuine technical courses in this field.

The difficulty confronting those of us who are engaged in this particular branch of education, consists in the fact that the knowledge required for such courses has in few cases been systematized and brought into such a form as is needed for educational purposes. There is no lack of material. The business experience of every country for a long period of time is about us on every hand, and needs simply to be utilized. The members of this Association can assist in this work very materially



if they will direct their own and their students' attention to this new field. I believe that important scientific results are sure to follow work along this line. Take, for instance, the subject of commercial geography, of which Professor Keasbey has just spoken. Here is an immense field of knowledge which has scarcely been touched. Most of the treatises on commercial geography consist of little more than encyclopedic collections of facts. Their arrangement and systemization for educational purposes would, as Professor Keasbey has shown, throw new light upon various departments of the science of economics. Another subject, equally fruitful, is that of private administration. The attention of political scientists has been devoted almost exclusively to the subject of public administration, while the administration of great private institutions has received almost no study, though there is every reason to believe that investigations along this line would yield very important scientific results. The study of the actual materials of commerce is another inviting field which must be worked in the interests of this branch of education.

The place which these new courses of study should occupy in our general system has also been touched upon by Professor Dixon. Personally I should be very glad if this branch of technical education could at once be placed on the high professional plane recommended by Professor Dixon. I feel sure, however, that this is quite impossible. After long years of experience we have not yet reached the point where we can demand a liberal college course as preparation either for law or medicine, or for engineering. It has been found necessary in every case to begin these branches of technical education lower down, and I feel sure that we shall have precisely

the same experience with commercial education. As I have already intimated, the class of people whom we wish to reach through schools of commerce, are not now willing to take a college course in preparation for their work. We shall utterly fail to reach this class if we require a college course as preparation. I believe that we shall accomplish much better results, both in an educational way and in the interests of our country, if we place this branch of technical education at once within the reach of the largest possible number, and strive continually to raise the level as time advances, making use so far as possible of the experience which we have had in other branches of technical study.

It is a great mistake to assume that a college course which will include these technical studies cannot be made disciplinary in its character, and conducive to the highest educational results. Any one who attempts seriously to solve the problem will find that a four years' course of study can be constructed which will include those subjects now regarded as basal in all of our liberal courses of study, and necessary for disciplinary purposes, and also the technical courses which are needed to furnish the sort of training which business men require. These technical courses can also be made as strong in a disciplinary way as any of the older branches of study. The time has long past when it is necessary to confine ourselves to one or two branches of human knowledge in order to secure mental and moral training for young people. As soon as we have put this new field of knowledge into such a form as it is possible to put it, even in a comparatively short time, we shall be able to accomplish as good educational results through the technical courses which I have recommended as through any others.

Mr. DAVIS R. DEWEY: I think the last speaker has driven home several truths. It seems to me that any course on commercial education which is proposed will not meet with any success unless it be so arranged that it will include technical instruction. I disagree with the idea that he must have the preparatory college course. We talk about a preparatory course for lawyers and doctors. I will ask you to direct your attention to the engineering schools which do not require an undergraduate course. They take the students at eighteen and begin at once with the preparation for their life profession. There is a tendency towards the lengthening of this course. Competition is extending the engineering courses to five and six years. The number of students who are directing their steps to the engineering schools at seventeen and eighteen, and the inability to take the ordinary undergraduate course as a preliminary to the engineering course, seems to me to furnish illustration of this matter. We must prepare for the rank and file. Our interest must be primarily with the great body of men who enter business, if we are to use colleges for this purpose at all.

How are we to give this subject a technical form which will be similar to the training which engineers, lawyers and physicians have? Besides the courses of information which have already been suggested, there must be something introduced which will train the business faculty. I do not mean by business faculty the quality of shrewdness or sharpness or business talent in making the business dollar, but those general qualities of business discipline, of procedure, of promptness, of quick execution, which the business man must have. The qualities which the business man calls for are some of those which I have spoken of, and he claims that they cannot be

gained as a rule unless the young man is brought to the business at a fairly early age. It is desirable that he should understand the world problems of trade, exchange, money and so on ; but those are not the qualities which make a man a successful business entrepreneur. We must have introduced into these curricula, in order to win the confidence of the business world, some kind of laboratory work which will train the business quality. The young doctor does have that in the hospital courses, the clinic, the dispensary cases ; the engineer has it in the shops, in the problems which are given in the summer work which he takes ; and we must devise methods which shall make it possible to bring to the students going into business life something of the same kind of laboratory and technical work.

Mr. M. N. BAKER : I should like to say a few words upon this subject from the standpoint of one of the other and older technical professions : namely, that of the engineer, to which allusion has been made in some of the remarks. Those who are considering commercial education are dealing with the same problem that is being met by engineers and engineering educators. A large part of the time of the annual conventions of the Society for the Promotion of Engineering Education has been devoted to various phases of this question of a broad general education as a pre-requisite to the training of the engineer. It has seemed to me, as I have watched the discussion in the engineering field, that a very large number of our most prominent engineering educators and practicing engineers feel that it would be highly desirable if the engineer might have the advantages of four full years of liberal education before taking up his special work. It must be borne in mind that a young man, such

as it is contemplated shall enter upon this commercial course, or shall enter upon any of the technical courses, is not, in nine cases out of ten, fitted to decide at the early age of sixteen or seventeen what line he wishes to pursue. He needs to know something of economics, history, chemistry, biology, before he can discern his special bent. He cannot learn these things unless he is given a broad general foundation in the way of a liberal education before he takes up with his specialty. I know that great pressure is brought to bear upon all of the technical schools to allow students to specialize at a very early age, and I know that for some years to come it will probably be necessary to yield somewhat to that pressure. There are many young men who will not secure the higher and specialized training in technical branches unless they can enter the technical schools at an early age, and without the previous four years' academic training. Until the liberal course can be realized as a preliminary to either engineering or commercial education, we must attempt to broaden the special courses to supply the deficiencies which will otherwise arise. The engineer or the business man needs a thorough mastery of many branches of education which he cannot get without a large number of years of preliminary study. He needs a thorough command of the English language, and when we consider that even after our full four years' academic education many of our college graduates are not able to write a really decent presentation of any question or to make an able address, it becomes apparent that we need to consider the broader phases of education.

Mr. ISAAC A. LOOS : I desire simply to call attention to the fact that the problem of a desirable preparation

for the technical course of study under consideration, may be looked at from the point of view of the secondary school, quite as wisely as from the exclusive point of view of the college. By bringing up everywhere secondary schools to the level now occupied by our very best secondary schools, a liberal preparation of considerable quality and importance will be provided for technical and professional courses of study, a preparation replacing in large part the traditional college course of a few decades ago, and bring our secondary education in line with, and parallel to the work of the German gymnasium and realschule and the French lycée.

MR. OLIVER M. W. SPRAGUE: Mr. President, there is one suggestion I should like to make. Several have spoken of commercial courses as if they were technical courses, or of the necessity that they should be technical courses. I am rather at a loss to determine just what there is about business that is of a technical nature, and certainly we have heard here little in the way of actual suggestion of what is to be studied in these new courses. Until we know more definitely what is to be taught, the plan of these studies, whether in the college or in the graduate school can hardly be determined or even profitably discussed. I suppose that the attitude of every one here upon these matters, is still more or less tentative, and it is in that spirit that I venture to put forward the suggestion of an underlying principle for the framing of a commercial course. The training and knowledge possessed by the best writers in such commercial newspapers as *The Economist*, and *The Commercial and Financial Chronicle* can, I think, be given to a considerable extent in the college or university. Such a training would be valuable not only for those

who were to become economic journalists, but also for those who were to engage in business pursuits. To illustrate by a single industry, the cotton manufacture: a student would know, (or if he had not studied that particular industry, would know the importance of knowing something about) the productive art, and system of marketing the raw material, conditions of manufacture in various places, including corporate management and finance, transportation, fluctuation of price, and the like. In some such way as this, I think, one may hope to work out much that is common to business generally, and is at the same time at least a part of what men in the higher walk of business have acquired in other ways.



## INDUSTRIAL AND PECUNIARY EMPLOYMENTS.

BY THORSTEIN VEBLEN.

For purposes of economic theory, the various activities of men and things about which economists busy themselves were classified by the early writers according to a scheme which has remained substantially unchanged, if not unquestioned, since their time. This scheme is the classical three-fold division of the factors of production under Land, Labor, and Capital. The theoretical aim of the economists in discussing these factors and the activities for which they stand has not remained the same throughout the course of economic discussion, and the three-fold division has not always lent itself with facility to new points of view and new purposes of theory, but the writers who have shaped later theory have, on the whole, not laid violent hands on the sacred formula. These facts must inspire the utmost reserve and circumspection in any one who is moved to propose even a subsidiary distinction of another kind between economic activities or agents. The terminology and the conceptual furniture of economics are complex and parti-colored enough without gratuitous innovation.

It is accordingly not the aim of this paper to set aside the time-honored classification of factors, or even to formulate an iconoclastic amendment, but rather to indicate how and why this classification has proved inadequate for certain purposes of theory which were not contemplated by the men who elaborated it. To this end a bit of preface may be in place as regards the aims which led to its formulation and the uses which the three-fold classification originally served.

The economists of the late eighteenth and early nineteenth centuries were believers in a Providential order, or an order of Nature. How they came by this belief need not occupy us here; neither need we raise a question as to whether their conviction of its truth was well or ill grounded. The Providential order or order of Nature is conceived to work in an effective and just way toward the end to which it tends; and in the economic field this objective end is the material welfare of mankind. The science of that time set itself the task of interpreting the facts with which it dealt, in terms of this natural order. The material circumstances which condition men's life fall within the scope of this natural order of the universe, and as members of the universal scheme of things men fall under the constraining guidance of the laws of Nature, who does all things well. As regards their purely theoretical work, the early economists are occupied with bringing the facts of economic life under natural laws conceived somewhat after the manner indicated; and when the facts handled have been fully interpreted in the light of this fundamental postulate the theoretical work of the scientist is felt to have been successfully done.

The economic laws aimed at and formulated under the guidance of this preconception are laws of what takes place "naturally" or "normally", and it is of the essence of things so conceived that in the natural or normal course there is no wasted or misdirected effort. The standpoint is given by the material interest of mankind, or, more concretely, of the community or "society" in which the economist is placed; the resulting economic theory is formulated as an analysis of the "natural" course of the life of the community, the ultimate theo-

*metaphysical**Natural laws*

retical postulate of which might, not unfairly, be stated as in some sort a law of the conservation of economic energy. When the course of things runs off naturally or normally, in accord with the exigencies of human welfare and the constraining laws of nature, economic income and outgo balance one another. The natural forces at play in the economic field may increase indefinitely through accretions brought in under man's dominion and through the natural increase of mankind, and, indeed, it is of the nature of things that an orderly progress of this kind should take place; but within the economic organism, as within the larger organism of the universe, there prevails an equivalence of expenditure and returns, an equilibrium of flux and reflux, which is not broken over in the normal course of things. So it is, by implication, assumed that the product which results from any given industrial process or operation is, in some sense or in some unspecified respect, the equivalent of the expenditure of forces, or of the effort, or what not, that has gone into the process out of which the product emerges.

This theorem of equivalence is the postulate which lies at the root of the classical theory of distribution, but it manifestly does not admit of proof—or of disproof either, for that matter; since neither the economic forces which go into the process nor the product which emerges are, in the economic respect, of such a tangible character as to admit of quantitative determination. They are in fact incommensurable magnitudes. To this last remark the answer may conceivably present itself that the equivalence in question is an equivalence in utility or in exchange value, and that the quantitative determination of the various items in terms of exchange value or of utility is, theoretically, not impossible; but when it is called

to mind that the forces or factors which go to the production of a given product take their utility or exchange value from that of the product, it will easily be seen that the expedient will not serve. The equivalence between the aggregate factors of production in any given case and their product remains a dogmatic postulate whose validity cannot be demonstrated in any terms that will not reduce the whole proposition to an aimless fatuity, or to metaphysical grounds which have now been given up.

The point of view from which the early, and even the later classical, economists discussed economic life was that of "the society" taken as a collective whole and conceived as an organic unit. Economic theory sought out and formulated the laws of the normal life of the social organism, as it is conceived to work out in that natural course whereby the material welfare of society is attained. The details of economic life are construed, for purposes of general theory, in terms of their subservience to the aims imputed to the collective life process. Those features of detail which will bear construction as links in the process whereby the collective welfare is furthered, are magnified and brought into the foreground, while such features as will not bear this construction are treated as minor disturbances. Such a procedure is manifestly legitimate and expedient in a theoretical inquiry whose aim is to determine the laws of health of the social organism and the normal functions of this organism in a state of health. The social organism is, in this theory, handled as an individual endowed with a consistent life purpose and something of an intelligent apprehension of what means will serve the ends which it seeks. With these collective ends the interests of the individual members are con-

*Natural right and natural  
liberties doctrine as cornerstone  
of the Classical system of distribu-  
tion*

*American Economic Association.*

ceived to be fundamentally at one ; and, while men may not see that their own individual interests coincide with those of the social organism, yet, since men are members of the comprehensive organism of nature and consequently subject to beneficent natural law, the ulterior trend of unrestrained individual action is, on the whole, in the right direction.

The details of individual economic conduct and its consequences are of interest to such a general theory chiefly as they further or disturb the beneficent "natural" course. But if the aims and methods of individual conduct were of minor importance in such an economic theory, that is not the case as regards individual rights. The early political economy was not simply a formulation of the natural course of economic phenomena, but it embodied an insistence on what is called "natural liberty". Whether this insistence on natural liberty is to be traced to utilitarianism or to a less specific faith in natural rights, the outcome for the purpose in hand is substantially the same. To avoid going too far afield, it may serve the turn to say that the law of economic equivalence, or conservation of economic energy, was, in early economics, backed by this second corollary of the order of nature, the closely related postulate of natural rights. The classical doctrine of distribution rests on both of these, and it is consequently not only a doctrine of what must normally take place as regards the course of life of society at large, but it also formulates what ought of right to take place as regards the remuneration for work and the distribution of wealth among men.

Under the resulting natural-economic law of equivalence and equity, it is held that the several participants or factors in the economic process severally get the

equivalent of the productive force which they expend. They severally get as much as they produce; and conversely, in the normal case they severally produce as much as they get. In the earlier formulations, as, for example, in the authoritative formulation of Adam Smith, there is no clear or persistent pronouncement as regards the terms in which this equivalence between production and remuneration runs. With the later, classical economists, who had the benefit of a developed utilitarian philosophy, it seems to be somewhat consistently conceived in terms of an ill-defined serviceability. With some later writers it is an equivalence of exchange values; but as this latter reduces itself to tautology, it need scarcely be taken seriously. When we are told in the later political economy that the several agents or factors in production normally 'earn' what they get, it is perhaps fairly to be construed as a claim that the economic service rendered the community by any one of the agents in production equals the service received by the agent in return. In terms of serviceability, then, if not in terms of productive force,<sup>1</sup> the individual agent, or at least the class or group of agents to which the individual belongs, normally gets as much as he contributes and contributes as much as he gets. This applies to all those employments or occupations which are ordinarily carried on in any community, throughout the aggregate of men's dealings with the material means of life. All activity which touches industry comes in under this law of equivalence and equity.

Now, to a theorist whose aim is to find the laws gov-

<sup>1</sup> Some late writers, as, *e. g.*, J. B. Clark, apparently must be held to conceive the equivalence in terms of productive force rather than of serviceability; or, perhaps, in terms of serviceability on one side of the equation and productive force on the other.



erning the economic life of a social organism, and who for this purpose conceives the economic community as a unit, the features of economic life which are of particular consequence are those which show the correlation of efforts and the solidarity of interests. For this purpose, such activities and such interests as do not fit into the scheme of solidarity contemplated are of minor importance, and are rather to be explained away or construed into subservience to the scheme of solidarity than to be incorporated at their face value into the theoretical structure. Of this nature, are what are here to be spoken of under the term "pecuniary employments," and the fortune which these pecuniary employments have met at the hands of classical economic theory is such as is outlined in the last sentence.

In a theory proceeding on the premise of economic solidarity, the important bearing of any activity that is taken up and accounted for, is its bearing upon the furtherance of the collective life process. Viewed from the standpoint of the collective interest, the economic process is rated primarily as a process for the provision of the aggregate material means of life. As a late representative of the classical school expresses it: "Production, in fact, embraces every economic operation except consumption."<sup>1</sup> It is this aggregate productivity, and the bearing of all details upon the aggregate productivity, that constantly occupies the attention of the classical economists. What partially diverts their attention from this central and ubiquitous interest, is their persistent lapse into natural-rights morality.

The result is that acquisition is treated as a sub-head under production, and effort directed to acquisition is

<sup>1</sup> J. B. Clark, *The Distribution of Wealth*, p. 20.

productivity and  
natural rights morality  
correlation of effort and  
the solidarity of interest in  
classical system.

collective process of  
life.



construed in terms of production. The pecuniary activities of men, efforts directed to acquisition and operations incident to the acquisition or tenure of wealth, are treated as incidental to the distribution to each of his particular proportion in the production of goods. Pecuniary activities, in short, are handled as incidental features of the process of social production and consumption, as details incident to the method whereby the social interests are served, instead of being dealt with as the controlling factor about which the modern economic process turns.

Apart from the metaphysical tenets indicated above as influencing them, there are, of course, reasons of economic history for the procedure of the early economists in so relegating the pecuniary activities to the background of economic theory. In the days of Adam Smith, for instance, economic life still bore much of the character of what Professor Schmoller calls *Stadtwirtschaft*. This was the case to some extent in practice, but still more decidedly in tradition. To a greater extent than has since been the case, households produced goods for their own consumption, without the intervention of sale; and handicraftsmen still produced for consumption by their customers, without the intervention of a market. In a considerable measure, the conditions which the Austrian marginal-utility theory supposes, of a producing seller and a consuming buyer, actually prevailed. It may not be true that in Adam Smith's time the business operations, the bargain and sale of goods, were, in general, obviously subservient to their production and consumption, but it comes nearer being true at that time than at any time since then. And the tradition having once been put into form and authenticated by Adam Smith, that such was the place of pecuniary

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transactions in economic theory, this tradition has lasted on in the face of later and further changes. Under the shadow of this tradition the pecuniary employments are still dealt with as auxilliary to the process of production, and the gains from such employments are still explained as being due to a productive effect imputed to them.

According to ancient prescription, then, all normal, legitimate economic activities carried on in a well regulated community serve a materially useful end, and so far as they are lucrative they are so by virtue of and in proportion to a productive effect imputed to them. But in the situation as it exists at any time there are activities and classes of persons which are indispensable to the community, or which are at least unavoidably present in modern economic life, and which draw some income from the aggregate product, at the same time that these activities are not patently productive of goods and can not well be classed as industrial, in any but a highly sophisticated sense. Some of these activities, which are concerned with economic matters but are not patently of an industrial character, are integral features of modern economic life, and must therefore be classed as normal; for the existing situation, apart from a few minor discrepancies, is particularly normal in the apprehension of present-day economists. Now, the law of economic equivalence and equity says that those who normally receive an income must perforce serve some productive end; and, since the existing organization of society is conceived to be eminently normal, it becomes imperative to find some ground on which to impute industrial productivity to those classes and employments which do not at the first view appear to be industrial at all.

Hence there is commonly visible in the classical political economy, ancient and modern, a strong inclination to make the schedule of industrially productive employments very comprehensive; so that a good deal of ingenuity has been spent in economically justifying their presence by specifying the productive effect of such non-industrial factors as the courts, the army, the police, the clergy, the schoolmaster, the physician, the opera singer.

But these non-economic employments are not so much to the point in the present inquiry; the point being employments which are unmistakably economic, but not industrial in the naïve sense of the word industry, and which yield an income.

Adam Smith analyzed the process of industry in which he found the community of his time engaged, and found the three classes of agents or factors: Land, Labor, and Capital (stock). The productive factors engaged being thus determined, the norm of natural-economic equivalence and equity already referred to above, indicated what would be the natural sharers in the product. Later economists have shown great reserve about departing from this three-fold division of factors, with its correlated three-fold division of sharers of remuneration; apparently because they have retained an instinctive, infeasible trust in the law of economic equivalence which underlies it. But circumstances have compelled the tentative intrusion of a fourth class of agent and income. The undertaker and his income presently came to be so large and ubiquitous figures in economic life that their presence could not be overlooked by the most normalizing economist. The undertaker's activity has been interpolated in the scheme of productive factors, as

a peculiar and fundamentally distinctive kind of labor, with the function of coördinating and directing industrial processes. Similarly, his income has been interpolated in the scheme of distribution, as a peculiar kind of wages, proportioned to the heightened productivity given the industrial process by his work.<sup>1</sup> His work is discussed in expositions of the theory of production. In discussions of his functions and his income the point of the argument is, how and in what degree does his activity increase the output of goods, or how and in what degree does it save wealth to the community. Beyond his effect in enhancing the effective volume of the aggregate wealth the undertaker receives but scant attention, apparently for the reason that so soon as that point has been disposed of the presence of the undertaker and his income has been reconciled with the tacitly accepted natural law of equivalence between productive service and remuneration. The normal balance has been established, and the undertaker's function has been justified and subsumed under the ancient law that Nature does all things well and equitably.

This holds true of the political economy of our grandfathers. But this aim and method of handling the phenomena of life for theoretical ends, of course, did not go out of vogue abruptly in the days of our grandfathers.<sup>2</sup> There is a large sufficiency of the like aim and animus

<sup>1</sup> The undertaker gets an income; therefore he must produce goods. But human activity directed to the production of goods is labor; therefore the undertaker is a particular kind of laborer. There is, of course, some dissent from this position.

<sup>2</sup> The change which has supervened as regards the habitual resort to a natural law of equivalence is in large part a change with respect to the degree of immediacy and "reality" imputed to this law, and to a still greater extent a change in the degree of overtness with which it is avowed.

in the theoretical discussions of a later time; but specifically to cite and analyse the evidence of its presence would be laborious, nor would it conduce to the general peace of mind.

Some motion towards a further revision of the scheme is to be seen in the attention which has latterly been given to the function and the profits of that peculiar class of undertakers whom we call speculators. But even on this head the argument is apt to turn on the question of how the services which the speculator is conceived to render the community are to be construed into an equivalent of his gains.<sup>1</sup> The difficulty of interpretation encountered at this point is considerable, partly because it is not quite plain whether the speculators as a class come out of their transactions with a net gain or with a net loss. A systematic net loss, or a no-profits balance, would, on the theory of equivalence, mean that the class which gets this loss or doubtful gain is of no service to the community; yet we are, out of the past, committed to the view that the speculator is useful—indeed economically indispensable—and shall therefore have his reward. In the discussions given to the speculator and his function some thought is commonly given to the question of the "legitimacy" of the speculator's traffic. The legitimate speculator is held to earn his gain by services of an economic kind rendered the community. The recourse to this epithet, "legitimate", is chiefly of interest as showing that the tacit postulate of a natural order is still in force. Legitimate are such speculative dealings as are, by the theorist,

<sup>1</sup> See, *e. g.*, a paper by H. C. Emery in the Papers and Proceedings of the Twelfth Annual Meeting of the American Economic Association, on "The Place of the Speculator in the Theory of Distribution," and more particularly the discussion following the paper.

conceived to serve the ends of the community, while illegitimate speculation is that which is conceived to be disserviceable to the community.

The theoretical difficulty about the speculator and his gains (or losses) is that the speculator *ex professo* is quite without interest in or connection with any given industrial enterprise or any industrial plant. He is, industrially speaking, without visible means of support. He may stake his risks on the gain or on the loss of the community with equal chances of success, and he may shift from one side to the other without winking.

The speculator may be treated as an extreme case of undertaker, who deals exclusively with the business side of economic life rather than with the industrial side. But he differs in this respect from the common run of business men in degree rather than in kind. His traffic is a pecuniary traffic, and it touches industry only remotely and uncertainly; while the business man as commonly conceived is more or less immediately interested in the successful operation of some concrete industrial plant. But since the undertaker first broke in to economic theory, some change has also taken place as regards the immediacy of the relations of the common run of undertakers to the mechanical facts of the industries in which they are interested. Half a century ago it was still possible to construe the average business manager in industry, as an agent occupied with the superintendence of the mechanical processes involved in the production of goods or services. But in the later development the connection between the business manager and the mechanical processes has, on an average, grown more remote; so much so, that his superintendence of the plant or of the processes is frequently visible only to the scientific imagination. That activity by

virtue of which the undertaker is classed as such makes him a business-man, not a mechanic or foreman of the shop. His superintendence is a superintendence of the pecuniary affairs of the concern, rather than of the industrial plant; especially is this true in the higher development of the modern captain of industry. As regards the nature of the employment which characterizes the undertaker, it is possible to distinguish him from the men who are mechanically engaged in the production of goods, and to say that his employment is of a business or pecuniary kind, while theirs is of an industrial or mechanical kind. It is not possible to draw a similar distinction between the undertaker who is in charge of a given industrial concern, and the business man who is in business but is not interested in the production of goods or services. As regards the character of employment, then, the line falls not between legitimate and illegitimate pecuniary transactions, but between business and industry.

The distinction between business and industry has, of course, been possible from the beginning of economic theory, and, indeed, the distinction has from time to time temporarily been made in the contrast frequently pointed out between the proximate interest of the business man and the ulterior interest of society at large. What appears to have hindered the reception of the distinction into economic doctrine, is the constraining presence of a belief in an order of Nature and the habit of conceiving the economic community as an organism. The point of view given by these postulates has made such a distinction between employments not only useless, but even disservicable for the ends to which theory has been directed. But the fact has come to be gradually more and more patent that there are constantly,



normally present in modern economic life an important range of activities and classes of persons who work for an income but of whom it cannot be said that they, either proximately or remotely, apply themselves to the production of goods. Their services, proximate or remote, to society are often of quite a problematical character. They are ubiquitous, and it will scarcely do to say that they are anomalous, for they are of ancient prescription, they are within the law and within the pale of popular morals.

Of these strictly economic activities that are lucrative without necessarily being serviceable to the community, the greater part are to be classed as "business". Perhaps the largest and most obvious illustration of these legitimate business employments is afforded by the speculators in securities. By way of further illustration may be mentioned the extensive and varied business of real-estate men (land-agents) engaged in the purchase and sale of property for speculative gain or for a commission; so, also, the closely related business of promoters and boomers of other than real-estate ventures; as also attorneys, brokers, bankers, and the like, although the work performed by these latter will more obviously bear interpretation in terms of social serviceability. The traffic of these business men shades off insensibly from that of the *bona fide* speculator who has no ulterior end of industrial efficiency to serve, to that of the captain of industry or entrepreneur as conventionally set forth in the economic manuals.

The characteristic in which these business employments resemble one another, and in which they differ from the mechanical occupations as well as from other non-economic employments, is that they are concerned primarily with the phenomena of value—with exchange

business — exchange and market value

industry — shaping and guiding  
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or market values and with purchase and sale—and only indirectly and secondarily, if at all, with mechanical processes. What holds the interest and guides and shifts the attention of men within these employments is the main chance. These activities begin and end within what may broadly be called "the higgling of the market". Of the industrial employments, in the stricter sense, it may be said, on the other hand, that they begin and end outside the higgling of the market. Their proximate aim and effect is the shaping and guiding of material things and processes. Broadly, they may be said to be primarily occupied with the phenomena of material serviceability, rather than with those of exchange value. They are taken up with the phenomena which make the subject matter of Physics and the other material sciences.

The business man enters the economic life process from the pecuniary side, and so far as he works an effect in industry he works it through the pecuniary dispositions which he makes. He takes thought most immediately of men's convictions regarding market values; and his efforts as a business man are directed to the apprehension, and commonly also to the influencing of men's beliefs regarding market values. The objective point of business is the diversion of purchase and sale into some particular channel, commonly involving a diversion from other channels. The laborer and the man engaged in directing industrial processes, on the other hand, enter the economic process from the material side; in their characteristic work they take thought most immediately of mechanical effects, and their attention is directed to turning men and things to account for the compassing of some material end. The ulterior aim, and the ulterior effect, of these industrial

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employments may be some pecuniary result ; work of this class commonly results in an enhancement, or at least an alteration, of market values. Conversely, business activity may, and in a majority of cases it probably does, effect an enhancement of the aggregate material wealth of the community, or the aggregate serviceability of the means at hand ; but such an industrial outcome is by no means bound to follow from the nature of the business man's work.

From what has just been said it appears that, if we retain the classical division of economic theory into Production, Distribution, and Consumption, the pecuniary employments do not properly fall under the first of these divisions, Production, if that term is to retain the meaning commonly assigned to it. In an earlier and less specialized organization of economic life, particularly, the undertaker frequently performs the work of a foreman or a technological expert, as well as the work of business management. Hence in most discussions of his work and his theoretical relations his occupation is treated as a composite one. The technological side of his composite occupation has even given a name to his gains (wages of superintendence), as if the undertaker were primarily a master-workman. The distinction at this point has been drawn between classes of persons instead of between classes of employments ; with the result that the evident necessity of discussing his technological employment under production has given countenance to the endeavor to dispose of the undertaker's business activity under the same head. This endeavor has, of course, not wholly succeeded.

In the later development, the specialization of work in the economic field has at this point progressed so far, and the undertaker now in many cases comes so near

being occupied with business affairs alone, to the exclusion of technological direction and supervision, that, with this object lesson before us, we no longer have the same difficulty in drawing a distinction between business and industrial employments. And even in the earlier days of the doctrines, when the aim was to dispose of the undertaker's work under the theoretical head of Production, the business side of his work persistently obtruded itself for discussion in the books and chapters given to Distribution and Exchange. The course taken by the later theoretical discussion of the entrepreneur, leaves no question but that the characteristic fact about his work is that he is a business man, occupied with pecuniary affairs.

Such pecuniary employments, of which the purely fiscal or financiering forms of business are typical, are nearly all and nearly throughout, conditioned by the institution of property or ownership—an institution which, as John Stuart Mill remarks, belongs entirely within the theoretical realm of Distribution. Ownership, no doubt, has its effect upon productive industry, and, indeed, its effect upon industry is very large, both in scope and range, even if we should not be prepared to go the length of saying that it fundamentally conditions all industry; but ownership is not itself primarily or immediately a contrivance for production. Ownership directly touches the results of industry, and only indirectly the methods and processes of industry. If the institution of property be compared with such a feature of our culture, for instance, as the domestication of plants or the smelting of iron, the meaning of what has just been said may seem clearer.

So much then of the business man's activity as is conditioned by the institution of property, is not to be

classed, in economic theory, as productive or industrial activity at all. Its objective point is an alteration of the distribution of wealth. His business is, essentially, to sell and buy—sell in order to buy cheaper, buy in order to sell dearer.<sup>1</sup> It may or may not, indirectly, and in a sense incidentally, result in enhanced production. The business man may be equally successful in his enterprise, and he may be equally well remunerated, whether his activity does or does not enrich the community. Immediately and directly, so long as it is confined to the pecuniary or business sphere, his activity is incapable of enriching or impoverishing the community as a whole except, after the fashion conceived by the mercantilists, through his dealings with men of other communities. The circulation and distribution of goods incidental to the business man's traffic is commonly, though not always or in the nature of the case, serviceable to the community; but the distribution of goods is a mechanical, not a pecuniary transaction, and it is not the objective point of business nor its invariable outcome. From the point of view of business, the distribution or circulation of goods is a means of gain, not an end sought.

It is true, industry is closely conditioned by business. In a modern community, the business man finally decides what may be done in industry, or at least in the greater number and the more conspicuous branches of industry. This is particularly true of those branches that are currently thought of as peculiarly modern. Under existing circumstances of ownership, the discretion in economic matters, industrial or otherwise, ultimately rests in the hands of the business men. It is their business to have to do with property, and property means

<sup>1</sup> Cf., e.g., Marx's *Capital*, especially bk. I, ch. IV.

the discretionary control of wealth. In point of character, scope and growth, industrial processes and plants adapt themselves to the exigencies of the market, wherever there is a developed market, and the exigencies of the market are pecuniary exigencies. The business man, through his pecuniary dispositions, enforces his choice of what industrial processes shall be in use. He can, of course, not create or initiate methods or aims for industry; if he does so he steps out of the business sphere into the material domain of industry. But he can decide whether and which of the known processes and industrial arts shall be practised, and to what extent. Industry must be conducted to suit the business man in his quest for gain; which is not the same as saying that it must be conducted to suit the needs or the convenience of the community at large. Ever since the institution of property was definitely installed, and in proportion as purchase and sale has been practiced, some approach has been made to a comprehensive system of control of industry by pecuniary transactions and for pecuniary ends, and the industrial organization is nearer such a consummation now than it ever has been. For the great body of modern industry the final term of the sequence is not the production of the goods but their sale; the endeavor is not so much to fit the goods for use as for sale. It is well known that there are many lines of industry in which the cost of marketing the goods equals the cost of making and transporting them.

Any industrial venture which falls short in meeting the pecuniary exigencies of the market declines and yields ground to others that meet them with better effect. Hence shrewd business management is a requisite to success in any industry that is carried on within the scope of the market. Pecuniary failure carries with

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it industrial failure, whatever may be the cause to which the pecuniary failure is due—whether it be inferiority of the goods produced, lack of salesmanlike tact, popular prejudice, scanty or ill-devised advertising, excessive truthfulness, or what not. In this way industrial results are closely dependent upon the presence of business ability; but the cause of this dependence of industry upon business in a given case is to be sought in the fact that other rival ventures have the backing of shrewd business management, rather than in any help which business management in the aggregate affords to the aggregate industry of the community. Shrewd and farsighted business management is a requisite of survival in the competitive pecuniary struggle in which the several industrial concerns are engaged, because shrewd and farsighted business management abounds and is employed by all the competitors. The ground of survival in the selective process is fitness for pecuniary gain, not fitness for serviceability at large. Pecuniary management is of an emulative character and gives, primarily, relative success only. If the change were equitably distributed, an increase or decrease of the aggregate or average business ability in the community need not immediately affect the industrial efficiency or the material welfare of the community. The like can not be said with respect to the aggregate or average industrial capacity of the men at work. The latter are, on the whole, occupied with production of goods; the business men, on the other hand, are occupied with the acquisition of them.

Theoreticians who are given to looking beneath the facts and to contemplating the profounder philosophical meaning of life speak of the function of the undertaker



as being the guidance and coördination of industrial processes with a view to economies of production. No doubt, the remoter effect of business transactions often is such coördination and economy, and, no doubt, also, the undertaker has such economy in view and is stimulated to his manoeuvres of combination by the knowledge that certain economies of this kind are feasible and will inure to his gain if the proper business arrangements can be effected. But it is practicable to class even this indirect furthering of industry by the undertaker as a permissive guidance only. The men in industry must first create the mechanical possibility of such new and more economical methods and arrangements, before the undertaker sees the chance, makes the necessary business arrangements, and gives directions that the more effective working arrangements be adopted.

It is notorious, and it is a matter upon which men dilate, that the wide and comprehensive consolidations and coördinations of industry, which often add so greatly to its effectiveness, take place at the initiative of the business men who are in control. It should be added that the fact of their being in control precludes such coördination from being effected except by their advice and consent. And it should also be added, in order to a passably complete account of the undertaker's function, that he not only can and does effect economizing coördinations of a large scope, but he also can and does at times inhibit the process of consolidation and coördination. It happens so frequently that it might fairly be said to be the common run that business interests and undertaker's manoeuvres delay consolidation, combination, coördination, for some appreciable time after they have become patently advisable on industrial grounds. The industrial advisability or practicability is not the de-

cisive point. Industrial advisability must wait on the eventual convergence of jarring pecuniary interests and on the strategical moves of business men playing for position.

Which of these two offices of the business man in modern industry, the furthering or the inhibitory, has the more serious or more far-reaching consequences is, on the whole, somewhat problematical. The furtherance of coördination by the modern captain of industry bulks large in our vision, in great part because the process of widening coördination is of a cumulative character. After a given step in coördination and combination has been taken, the next step takes place on the basis of the resulting situation. Industry, that is to say the working force engaged in industry, has a chance to develop new and larger possibilities to be taken further advantage of. In this way each successive move in the enhancement of the efficiency of industrial processes, or in the widening of coördination in industrial processes, pushes the captain of industry to a further concession, making possible a still farther industrial growth. But as regards the undertaker's inhibitory dealings with industrial coördination the visible outcome is not so striking. The visible outcome is simply that nothing of the kind then takes place in the premises. The potential cumulative sequence is cut off at the start, and so it does not figure in our appraisal of the disadvantage incurred. The loss does not commonly take the more obtrusive form of an absolute retreat, but only that of a failure to advance where the industrial situation admits of an advance.

It is, of course, impracticable to foot up and compare gain and loss in such a case, where the losses, being of the nature of inhibited growth, cannot be ascertained.

But since the industrial serviceability of the captain of industry is, on the whole, of a problematical complexion, it should be advisable for a cautious economic theory not to rest its discussion of him on his serviceability.<sup>1</sup>

<sup>1</sup> It is not hereby intended to depreciate the services rendered the community by the captain of industry in his management of business. Such services are no doubt rendered and are also no doubt of substantial value. Still less is it the intention to decry the pecuniary incentive as a motive to thrift and diligence. It may well be that the pecuniary traffic which we call business is the most effective method of conducting the industrial policy of the community; not only the most effective that has been contrived, but perhaps the best that can be contrived. But that is a matter of surmise and opinion. In a matter of opinion on a point that cannot be verified, a reasonable course is to say that the majority are presumably in the right. But all that is beside the point. However probable or reasonable such a view may be, it can find no lodgment in modern scientific theory, except as a corollary of secondary importance. Nor can scientific theory build upon the ground it may be conceived to afford. Policy may so build, but science can not. Scientific theory is a formulation of the laws of phenomena in terms of the efficient forces at work in the sequence of phenomena. So long as (under the old dispensation of the order of nature) the animistically conceived natural laws, with their God-given objective end, were considered to exercise a constraining guidance over the course of events whereof they were claimed to be laws, so long it was legitimate scientific procedure for economists to formulate their theory in terms of these laws of the natural course; because so long they were speaking in terms of what was, to them, the efficient forces at work. But so soon as these natural laws were reduced to the plane of colorless empirical generalization as to what commonly happens, while the efficient forces at work are conceived to be of quite another cast, so soon must theory abandon the ground of the natural course, sterile for modern scientific purposes, and shift to the ground of the causal sequence, where alone it will have to do with the forces at work as they are conceived in our time. The generalizations regarding the normal course, as "normal" has been defined in economics since J. S. Mill, are not of the nature of theory, but only rule-of-thumb. And the talk about the "function" of this and that factor of production, etc., in terms of the collective life purpose, goes to the same limbo; since the collective life purpose is no longer avowedly conceived to cut any figure in the every-day guidance of economic activities or the shaping of economic results.

The doctrine of the social-economic function of the undertaker may for the present purpose be illustrated by a suppositious parallel from

*As expressed in legislation? But this, too, is ordinarily for business ends, and the least applied in the effect of law on business prosperity.*

It appears, then, as all economists are no doubt aware, that there is in modern society a considerable range of activities, which are not only normally present, but which constitute the vital core of our economic system; which are not directly concerned with production, but which are nevertheless lucrative. Indeed, the group comprises most of the highly remunerative employments in modern economic life. The gains from these employments must plainly be accounted for on other grounds than their productivity, since they need have no productivity.

But it is not only as regards the pecuniary employments that productivity and remuneration are constitutionally out of touch. It seems plain, from what has already been said, that the like is true for the remuneration gained in the industrial employments. Most wages, particularly those paid in the industrial employments proper, as contrasted with those paid for domestic or personal service, are paid on account of pecuniary serviceability to the employer, not on grounds of material

*Physics.* It is an easy generalization, which will scarcely be questioned, that, in practice, pendulums commonly vibrate in a plane approximately parallel with the nearest wall of the clock-case in which they are placed. The normality of this parallelism is fortified by the further observation that the vibrations are also commonly in a plane parallel with the nearest wall of the room; and when it is further called to mind that the balance which serves the purpose of a pendulum in watches similarly vibrates in a plane parallel with the walls of its case, the absolute normality of the whole arrangement is placed beyond question. It is true, the parallelism is not claimed to be related to the working of the pendulum, except as a matter of fortuitous convenience; but it should be manifest from the generality of the occurrence that in the normal case, in the absence of disturbing causes, and in the long run, all pendulums will "naturally" tend to swing in a plane faultlessly parallel with the nearest wall. The use which has been made of the "organic concept", in economics and in social science at large, is fairly comparable with this suppositious argument concerning the pendulum.

serviceability to mankind at large. The product is valued, sought and paid for on account of and in some proportion to its vendibility, not for more recondite reasons of ulterior human welfare at large. It results that there is no warrant, in general theory, for claiming that the work of highly paid persons (more particularly that of highly paid business men) is of greater substantial use to the community than that of the less highly paid. At the same time, the reverse could, of course, also not be claimed. Wages, resting on a pecuniary basis, afford no consistent indication of the relative productivity of the recipients, except in comparisons between persons or classes whose products are identical except in amount,—that is to say, where a resort to wages as an index of productivity would be of no use anyway.<sup>1</sup>

A result of the acceptance of the theoretical distinction here attempted between industrial and pecuniary employments and an effective recognition of the pecuniary basis of the modern economic organization would be to dissociate the two ideas of productivity and remuneration. In mathematical language, remuneration could no longer be conceived and handled as a "function" of productivity,—unless "productivity" be taken to mean pecuniary serviceability to the person who pays the remuneration. In modern life remuneration is, in the last analysis, uniformly obtained by virtue of an agreement between individuals who commonly proceed

*In this what  
is meant?*

<sup>1</sup> Since the ground of payment of wages is the vendibility of the product, and since the ground of a difference in wages is the different vendibility of the product acquired through the purchase of the labor for which the wages are paid, it follows that wherever the difference in vendibility rests on a difference in the magnitude of the product alone, there wages should be somewhat in proportion to the magnitude of the product.

on their own interest in point of pecuniary gain. The remuneration may, therefore, be said to be a "function" of the pecuniary service rendered the person who grants the remuneration; but what is pecuniarily serviceable to the individual, who exercises the discretion in the matter need not be productive of material gain to the community as a whole. Nor does the algebraic sum of individual pecuniary gains measure the aggregate serviceability of the activities for which the gains are got.

In a community organized, as modern communities are, on a pecuniary basis, the discretion in economic matters rests with the individuals, in severalty; and the aggregate of discrete individual interests nowise expresses the collective interest. Expressions constantly recur in economic discussions which imply that the transactions discussed are carried out for the sake of the collective good or at the initiative of the social organism, or that "society" rewards so and so for their services. Such expressions are commonly of the nature of figures of speech and are serviceable for homiletical rather than for scientific use. They serve to express their user's faith in a beneficent order of nature, rather than to convey or to formulate information in regard to facts.

Of course, it is still possible consistently to hold that there is a natural equivalence between work and its reward, that remuneration is naturally, or normally, or in the long run, proportioned to the material service rendered the community by the recipient; but that proposition will hold true only if "natural" or "normal" be taken in such a sense as to admit of our saying that the natural does not coincide with the actual; and it must be recognized that such a doctrine of the "natural" apportionment of wealth or of income disregards the



efficient facts of the case. Apart from effects of this kind in the way of equitable arrangements traceable to grounds of sentiment, the only recourse which modern science would afford the champion of a doctrine of natural distribution, in the sense indicated, would be a doctrine of natural selection; according to which all disserviceable or unproductive, wasteful, employments would, perforce, be weeded out as being incompatible with the continued life of any community that tolerated them. But such a selective elimination of unserviceable or wasteful employments would presume the following two conditions, neither of which need prevail: (1) It must be assumed that the disposable margin between the aggregate productivity of industry and the aggregate necessary consumption is so narrow as to admit of no appreciable waste of energy or of goods; (2) it must be assumed that no deterioration of the condition of society in the economic respect does or can "naturally" take place. As to the former of these two assumptions, it is to be said that in a very poor community, and under exceptionally hard economic circumstances, the margin of production may be as narrow as the theory would require. Something approaching this state of things may be found, for instance, among some Eskimo tribes. But in a modern industrial community—where the margin of admissible waste probably always exceeds fifty per cent. of the output of goods—the facts make no approach to the hypothesis. The second assumed condition is, of course, the old-fashioned assumption of a beneficent, providential order or meliorative trend in human affairs. As such, it needs no argument at this day. Instances are not far to seek of communities in which economic deterioration has taken place while the system of distribution, both



of income and of accumulated wealth, has remained on a pecuniary basis.

I am sensible of having dwelt at an unseemly length on this question of an organic or natural equivalence between social service and remuneration, on the one hand, and on the bearing of the attempted distinction between industrial and pecuniary employments upon this theory of a natural equivalence, on the other hand. My excuse for so doing is that this doctrine of a natural equivalence has had a far-reaching and enduring effect upon the received theories of distribution and production, and that, with a change of phrase rather than of substance, it still continues to afford ground for further elaboration of like theories; while at the same time it seems plain that a scrutiny of the metaphysics of the doctrine of equivalence must immediately put it out of court as being groundless as well as useless for the purposes of modern science. I am also sensible of having said very little in the course of this long argument that is not already contained, explicitly or by broad implication, in the accepted body of doctrines. What has been attempted is to follow out the direction of latter-day economic discussion one step beyond the point at which those who have been making economic science have been content to rest their analysis of phenomena. This one step crosses the frontier between the normal and the actual, at a point where the line has not usually been crossed.

To return to the main drift of the argument. The pecuniary employments have to do with wealth in point of ownership, with market values, with transactions of exchange, purchase and sale, bargaining for the purpose of pecuniary gain. These employments make up the

characteristic occupations of business men, and the gains of business are derived from successful endeavors of the pecuniary kind. These business employments are the characteristic activity (constitute the "function") of what are in theory called undertakers. The dispositions which undertakers, *qua* business men, make are pecuniary dispositions—whatever industrial sequel they may or may not have—and are carried out with a view to pecuniary gain. The wealth of which they have the discretionary disposal may or may not be in the form of "production goods"; but in whatever form the wealth in question is conceived to exist, it is handled by the undertakers in terms of values and is disposed of by them in the pecuniary respect. When, as may happen, the undertaker steps down from the pecuniary plane and directs the mechanical handling and functioning of "production goods", he becomes for the time a foreman. The undertaker, if his business venture is of the industrial kind, of course takes cognizance of the aptness of a given industrial method or process for his purpose, and he has to choose between different industrial processes in which to invest his values; but his work as undertaker, simply, is the investment and shifting of the values under his hand from the less to the more gainful point of investment. When the investment takes the form of material means of industry, or industrial plant, the sequel of a given business transaction is commonly some particular use of such means; and when such industrial use follows, it commonly takes place at the hands of other men than the undertaker, although it takes place within limits imposed by the pecuniary exigencies of which the undertaker takes cognizance. Wealth turned to account in the way of investment or business management may or may not, in consequence,

be turned to account, materially, for industrial effect. Wealth, values, so employed for pecuniary ends is capital in the business sense of the word.<sup>1</sup> Wealth, material means of industry, physically employed for industrial ends is capital in the industrial sense. Theory, therefore, would require that care be taken to distinguish between capital as a pecuniary category, and capital as an industrial category, if the term capital is retained to cover the two concepts.<sup>2</sup> The distinction here made substantially coincides with a distinction which many late writers have arrived at from a different point of approach and have, with varying success, made use of under different terms.<sup>3</sup>

A further corollary touching capital may be pointed out. The gains derived from the handling of capital in the pecuniary respect have no immediate relation, stand in no necessary relation of proportion, to the productive effect compassed by the industrial use of the material means over which the undertaker may dispose; although the gains have a relation of dependence to the effects achieved in point of vendibility. But vendibility need not, even approximately, coincide with serviceability,

<sup>1</sup> All wealth so used is capital, but it does not follow that all pecuniary capital is social wealth.

<sup>2</sup> In current theory the term capital is used in these two senses; while in business usage it is employed pretty consistently in the former sense alone. The current ambiguity in the term capital has often been adverted to by economists, and there may be need of a revision of the terminology at this point; but this paper is not concerned with that question.

<sup>3</sup> Professor Fetter, in a recent paper (*Quarterly Journal of Economics*, November, 1900) is, perhaps, the writer who has gone the farthest in this direction in the definition of the capital concept. Professor Fetter wishes to confine the term capital to pecuniary capital, or rather to such pecuniary capital as is based on the ownership of material goods. The wisdom of such a terminological expedient is, of course, not in question here.

except serviceability be construed in terms of marginal utility or some related conception, in which case the outcome is a tautology. Where, as in the case commonly assumed by economists as typical, the investing undertaker seeks his gain through the production and sale of some useful article, it is commonly also assumed that his effort is directed to the most economical production of as large and serviceable a product as may be, or at least it is assumed that such production is the outcome of his endeavors in the natural course of things. This account of the aim and outcome of business enterprise may be natural, but it does not describe the facts. The facts being, of course, that the undertaker in such a case seeks to produce economically as vendible a product as may be. In the common run vendibility depends in great part on the serviceability of the goods, but it depends also on several other circumstances; and to that highly variable, but nearly always considerable extent to which vendibility depends on other circumstances than the material serviceability of the goods, the pecuniary management of capital must be held not to serve the ends of production. Neither immediately, in his purely pecuniary traffic, nor indirectly, in the business guidance of industry through his pecuniary traffic, therefore, can the undertaker's dealings with his pecuniary capital be accounted a productive occupation, nor can the gains of capital be taken to mark or to measure the productivity due to the investment. The "cost of production" of goods in the case contemplated is to an appreciable, but indeterminable, extent a cost of production of vendibility—an outcome which is often of doubtful service to the body of consumers, and which often counts in the aggregate as waste. The material serviceability of the means employed

in industry, that is to say the functioning of industrial capital in the service of the community at large, stands in no necessary or consistent relation to the gainfulness of capital in the pecuniary respect. Productivity can accordingly not be predicted of pecuniary capital. It follows that productivity theories of interest should be as difficult to maintain as productivity theories of the gains of the pecuniary employments, the two resting on the same grounds.

It is, further, to be remarked that pecuniary capital and industrial capital do not coincide in respect of the concrete things comprised under each. From this and from the considerations already indicated above, it follows that the magnitude of pecuniary capital may vary independently of variations in the magnitude of industrial capital—not indefinitely, perhaps, but within a range which, in its nature, is indeterminate. Pecuniary capital is a matter of market values, while industrial capital is, in the last analysis, a matter of mechanical efficiency, or rather of mechanical effects not reducible to a common measure or a collective magnitude. So far as the latter may be spoken of as a homogenous aggregate—itsself a doubtful point at best—the two categories of capital are disparate magnitudes, which can be mediated only through a process of valuation conditioned by other circumstances besides the mechanical efficiency of the material means valued. Market values being a psychological outcome, it follows that pecuniary capital, an aggregate of market values, may vary in magnitude with a freedom which gives the whole an air of caprice,—such as psychological phenomena, particularly the psychological phenomena of crowds, frequently present, and such as becomes strikingly noticeable in times of panic or of

speculative inflation. On the other hand, industrial capital, being a matter of mechanical contrivances and adaptation, cannot similarly vary through a revision of valuations. If it is taken as an aggregate, it is a physical magnitude, and as such it does not alter its complexion or its mechanical efficiency in response to the greater or less degree of appreciation with which it is viewed. Capital pecuniarily considered rests on a basis of subjective value; capital industrially considered rests on material circumstances reducible to objective terms of mechanical, chemical and physiological effect.

The point has frequently been noted that it is impossible to get at the aggregate social (industrial) capital by adding up the several items of individual (pecuniary) capital. A reason for this, apart from variations in the market values of given material means of production, is that pecuniary capital comprises not only material things but also conventional facts, psychological phenomena not related in any rigid way to material means of production,—as, *e. g.*, good will, fashions, customs, prestige, effrontery, personal credit. Whatever ownership touches, and whatever affords ground for pecuniary discretion, may be turned to account for pecuniary gain and may therefore be comprised in the aggregate of pecuniary capital. Ownership, the basis of pecuniary capital, being itself a conventional fact, that is to say a matter of habits of thought, it is intelligible that phenomena of convention and opinion should figure in an inventory of pecuniary capital; whereas, industrial capital being of a mechanical character, conventional circumstances do not affect it—except as the future production of material means to replace the existing outfit may be guided by convention—and items having but a conventional existence are, therefore, not comprised in

its aggregate. The disparity between pecuniary and industrial capital, therefore, is something more than a matter of an arbitrarily chosen point of view, as some recent discussions of the capital concept would have us believe; just as the difference between the pecuniary and the industrial employments, which are occupied with the one or the other category of capital, means something more than the same thing under different aspects.

But the distinction here attempted has a farther bearing, beyond the possible correction of a given point in the theory of distribution. Modern economic science is to an increasing extent concerning itself with the question of what men do and how and why they do it, as contrasted with the older question of how Nature, working through human nature, maintains a favorable balance in the output of goods. Neither the practical questions of our generation, nor the pressing theoretical questions of the science, run on the adequacy or equity of the share that goes to any class in the normal case. The questions are rather such realistic ones as these: Why do we, now and again, have hard times and unemployment in the midst of excellent resources, high efficiency and plenty of unmet wants? Why is one-half our consumable product contrived for consumption that yields no material benefit? Why are large co-ordinations of industry, which greatly reduce cost of production, a cause of perplexity and alarm? Why is the family disintegrating among the industrial classes, at the same time that the wherewithal to maintain it is easier to compass? Why are large and increasing portions of the community penniless in spite of a scale of remuneration which is very appreciably above the sub-



sistence minimum? Why is there a widespread disaffection among the intelligent workmen who ought to know better? These and the like questions, being questions of fact, are not to be answered on the grounds of normal equivalence. Perhaps it might better be said that they have so often been answered on those grounds, without any approach to disposing of them, that the outlook for help in that direction has ceased to have a serious meaning. These are, to borrow Professor Clark's phrase, questions to be answered on dynamic, not on static grounds. They are questions of conduct and sentiment, and so far as their solution is looked for at the hands of economists it must be looked for along the line of the bearing which economic life has upon the growth of sentiment and canons of conduct. That is to say, they are questions of the bearing of economic life upon the cultural changes that are going forward.

For the present it is the vogue to hold that economic life, broadly, conditions the rest of social organization or the constitution of society. This vogue of the proposition will serve an excuse from going into an examination of the grounds on which it may be justified, as it is scarcely necessary to persuade any economist that it has substantial merits even if he may not accept it in an unqualified form. What the Marxists have named the "Materialistic Conception of History" is assented to with less and less qualification by those who make the growth of culture their subject of inquiry. This materialistic conception says that institutions are shaped by economic conditions; but, as it left the hands of the Marxists, and as it still functions in the hands of many who knew not Marx, it has very little to say regarding the efficient force, the channels, or the

methods by which the economic situation is conceived to have its effect upon institutions. What answer the early Marxists gave to this question, of how the economic situation shapes institutions, was to the effect that the causal connection lies through a selfish, calculating class interest. But, while class interest may count for much in the outcome, this answer is plainly not a competent one, since, for one thing, institutions by no means change with the alacrity which the sole efficiency of a reasoned class interest would require.

Without discrediting the claim that class interest counts for something in the shaping of institutions, and to avoid getting entangled in preliminaries, it may be said that institutions are of the nature of prevalent habits of thought, and that therefore the force which shapes institutions is the force or forces which shape the habits of thought prevalent in the community. But habits of thought are the outcome of habits of life. Whether it is intentionally directed to the education of the individual or not, the discipline of daily life acts to alter or re-enforce the received habits of thought, and so acts to fortify the received institutions under which men live. And the direction in which, on the whole, the alteration proceeds is conditioned by the trend of the discipline of daily life. The point here immediately at issue is the divergent trend of this discipline in those occupations which are prevailingly of an industrial character, as contrasted with those which are prevailingly of a pecuniary character. So far as regards the different cultural outcome to be looked for on the basis of the present economic situation as contrasted with the past, therefore, the question immediately in hand is as to the greater or less degree in which occupations are differentiated into

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industrial and pecuniary in the present as compared with the past.

The characteristic feature which is currently held to differentiate the existing economic situation from that out of which the present has developed, or out of which it is emerging, is the prevalence of the machine industry with the consequent larger and more highly specialized organization of the market and of the industrial force and plant. As has been pointed out above, and as is well enough known from the current discussions of the economists, industrial life is organized on a pecuniary basis and managed from the pecuniary side. This, of course, is true in a degree both of the present and of the nearer past, back at least as far as the middle ages. But the larger scope of organizations in modern industry means that the pecuniary management has been gradually passing into the hands of a relatively decreasing class, whose contact with the industrial classes proper grows continually less immediate. The distinction between employments above spoken of is in an increasing degree coming to coincide with a differentiation of occupations and of economic classes. Some degree of such specialization and differentiation there has, of course, been, one might almost say, always. But in our time, in many branches of industry, the specialization has been carried so far that large bodies of the working population have but an incidental contact with the business side of the enterprise, while a minority have little if any other concern with the enterprise than its pecuniary management. This was not true, *e. g.*, at the time when the undertaker was still salesman, purchasing agent, business manager, foreman of the shop, and master workman. Still less was it true in the days of the self-sufficing manor or household, or in the

days of the closed town industry. Neither is it true in our time of what we call the backward or old-fashioned industries. These latter have not been and are not organized on a large scale, with a consistent division of labor between the owners and business managers on the one side and the operative employees on the other. Our standing illustration of this less highly organized class of industries are the surviving handicrafts and the common run of farming as carried on by relatively small proprietors. In that earlier phase of economic life, out of which the modern situation has gradually grown, all the men engaged had to be constantly on their guard, in a pecuniary sense, and were constantly disciplined in the husbanding of their means and in the driving of bargains,—as is still true, *e. g.*, of the American farmer. The like was formerly true also of the consumer, in his purchases, to a greater extent than at present. A good share of the daily attention of those who were engaged in the handicrafts was still perforce given to the pecuniary or business side of their trade. But for that great body of industry which is conventionally recognized as eminently modern, specialization of function has gone so far as, in great measure, to exempt the operative employees from taking thought of pecuniary matters.

Now, as to the bearing of all this upon cultural changes that are in progress or in the outlook. Leaving the "backward," relatively unspecialized, industries on one side, as being of an equivocal character for the point in hand and as not differing characteristically from the corresponding industries in the past so far as regards their disciplinary value; modern occupations may, for the sake of the argument, be broadly distinguished, as economic employments have been distin-

guished above, into business and industrial. The modern industrial and the modern business occupations are fairly comparable as regards the degree of intelligence required in both, if it be borne in mind that the former occupations comprise the highly trained technological experts and engineers as well as the highly skilled mechanics. The two classes of occupations differ in that the men in the pecuniary occupations work within the lines and under the guidance of the great institution of ownership, with its ramifications of custom, prerogative, and legal right; whereas those in the industrial occupations are, in their work, relatively free from the constraint of this conventional norm of truth and validity. It is, of course, not true that the work of the latter class lies outside the reach of the institution of ownership; but it is true that, in the heat and strain of the work, when the agent's powers and attention are fully taken up with the work which he has in hand, that of which he has perforce to take cognizance is not conventional law, but the conditions impersonally imposed by the nature of material things. This is the meaning of the current commonplace that the required close and continuous application of the operative in mechanical industry bars him out of all chance for an all-around development of the cultural graces and amenities. It is the periods of close attention and hard work that seem to count for most in the formation of habits of thought.

An *a priori* argument as to what cultural effects should naturally follow from such a difference in discipline between occupations, past and present, would probably not be convincing, as *a priori* arguments from half-authenticated premises commonly are not. And the experiments along this line which later economic

developments have so far exhibited have been neither neat enough, comprehensive enough, nor long continued enough to give definitive results. Still, there is something to be said under this latter head, even if this something may turn out to be somewhat familiar.

It is, *e. g.*, a commonplace of current vulgar discussions of existing economic questions, that the classes engaged in the modern mechanical or factory industries are improvident and apparently incompetent to take care of the pecuniary details of their own life. In this indictment may well be included not only factory hands, but the general class of highly skilled mechanics, inventors, technological experts. The rule does not hold in any hard and fast way, but there seems to be a substantial ground of truth in the indictment in this general form. This will be evident on comparison of the present factory population with the class of handicraftsmen of the older culture whom they have displaced, as also on comparison with the farming population of the present time, especially the small proprietors of this and other countries. The inferiority which is currently conceded to the modern industrial classes in this respect is not due to scantier opportunities for saving, whether they are compared with the earlier handicraftsmen or with the modern farmer or peasant. This phenomena is commonly discussed in terms which impute to the improvident industrial classes something in the way of total depravity, and there is much preaching of thrift and steady habits. But the preaching of thrift and self-help, unremitting as it is, is not producing an appreciable effect. The trouble seems to run deeper than exhortation can reach. It seems to be of the nature of habit rather than of reasoned conviction. Other causes may be present and

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may be competent partially to explain the improvidence of these classes, but the inquiry is at least a pertinent one how far the absence of property and thrift among them may be traceable to the relative absence of pecuniary training in the discipline of their daily life. If, as the general lay of the subject would indicate, this peculiar pecuniary situation of the industrial classes is in any degree due to comprehensive disciplinary causes, there is material in it for an interesting economic inquiry.

The surmise that the trouble with the industrial class is something of this character is strengthened by another feature of modern vulgar life, to which attention is directed as a further, and, for the present, a concluding illustration of the character of the questions that are touched by the distinction here spoken for. The most insidious and most alarming malady, as well as the most perplexing and unprecedented, that threatens the modern social and political structure is what is vaguely called socialism. The point of danger to the social structure, and at the same time the substantial core of the socialistic disaffection, is a growing disloyalty to the institution of property, aided and abetted as it is by a similarly growing lack of deference and affection for other conventional features of social structure. The classes affected by socialistic vagaries are not consistently averse to a competent organization and control of society, particularly not in the economic respect, but they are averse to organization and control on conventional lines. The sense of solidarity does not seem to be either defective or in abeyance, but the ground of solidarity is new and unexpected. What their constructive ideals may be need not concern nor detain us; they are vague and in-

*Socialism*



consistent and for the most part negative. Their disaffection has been set down to discontent with their lot by comparison with others, and to a mistaken view of their own interests; and much and futile effort has been spent in showing them the error of their ways of thinking. But what the experience of the past suggests that we should expect under the guidance of such motives and reasoning as these would be a demand for a redistribution of property, a reconstitution of the convention of ownership on such new lines as the apprehended interests of these classes would seem to dictate. But such is not the trend of socialistic thinking, which contemplates rather the elimination of the institution of property. To the socialists property or ownership does not seem inevitable or inherent in the nature of things; to those who criticise and admonish them it commonly does.

Compare them in this respect with other classes who have been moved by hardship or discontent, whether well or ill advised, to put forth denunciations and demands for radical economic changes; as *e. g.*, the American farmers in their several movements, of grangerism, populism, and the like. These have been loud enough in their denunciations and complaints, and they have been accused of being socialistic in their demand for a virtual redistribution of property. They have not felt the justice of the accusation, however, and it is to be noted that their demands have consistently run on a rehabilitation of property on some new basis of distribution, and have been uniformly put forth with the avowed purpose of bettering the claimants in point of ownership. Ownership, property "honestly" acquired, has been sacred to the rural malcontents, here and elsewhere; what they have aspired to do has been to remedy what

they have conceived to be certain abuses under the institution, without questioning the institution itself.

Not so with the socialists, either in this country or elsewhere. Now, the spread of socialistic sentiment shows a curious tendency to affect those classes particularly who are habitually employed in the specialized industrial occupations, and are thereby in great part exempt from the intellectual discipline of pecuniary management. Among these men, who by the circumstances of their daily life are brought to do their serious and habitual thinking in other than pecuniary terms, it looks as if the ownership preconception were becoming obsolescent through disuse. It is the industrial population, in the modern sense, and particularly the more intelligent and skilled men employed in the mechanical industries, that are most seriously and widely affected. With exceptions both ways, but with a generality that is not to be denied, the socialistic disaffection spreads through the industrial towns, chiefly and most potently among the better classes of operatives in the mechanical employments; whereas the relatively indigent and unintelligent regions and classes, which the differentiation between pecuniary and industrial occupations has not reached, are relatively free from it. In like manner the upper and middle classes, whose employments are of a pecuniary character, if any, are also not seriously affected; and when avowed socialistic sentiment is met with among these upper and middle classes it commonly turns out to be merely a humanitarian aspiration for a more "equitable" redistribution of wealth—a readjustment of ownership under some new and improved method of control—not a contemplation of the traceless disappearance of ownership.

Socialism, in the sense in which the word connotes a

subversion of the economic foundations of modern culture, appears to be found only sporadically and uncertainly outside the limits, in time and space, of the discipline exercised by the modern mechanical, non-pecuniary occupations. This state of the case need of course not be due solely to the disciplinary effects of the industrial employments, nor even solely to effects traceable to those employments whether in the way of disciplinary results, selective development, or what not. Other factors, particularly factors of an ethnic character, seem to coöperate to the result indicated ; but, so far as evidence bearing on the point is yet in hand and has been analyzed, it indicates that this differentiation of occupations is a necessary requisite to the growth of a consistent body of socialistic sentiment ; and the indication is also that wherever this differentiation prevails in such a degree of accentuation and affects such considerable and compact bodies of people as to afford ground for a consistent growth of common sentiment, a result is some form of iconoclastic socialism. The differentiation may of course have a selective as well as a disciplinary effect upon the population affected, and an off-hand separation of these two modes of influence can of course not be made. In any case, the two modes of influence seem to converge to the outcome indicated ; and, for the present purpose of illustration simply, the tracing out of the two strands of sequence in the case neither can nor need be undertaken. By force of this differentiation, in one way and another, the industrial classes are learning to think in terms of material cause and effect, to the neglect of prescription and conventional grounds of validity ; just as, in a faintly incipient way, the economists are also learning to do in their discussion of the life of these classes. The resulting decay of the popular sense of conventional validity of

course extends to other matters than the pecuniary conventions alone, with the outcome that the socialistically affected industrial classes are pretty uniformly affected with an effortless iconoclasm in other directions as well. For the discipline to which their work and habits of life subject them gives not so much a training away from the pecuniary conventions, specifically, as a positive and somewhat unmitigated training in methods of observation and inference proceeding on grounds alien to all conventional validity. But the practical experiment going on in the specialization of discipline, in the respect contemplated, appears still to be near its beginning, and the growth of aberrant views and habits of thought due to the peculiar disciplinary trend of this late and unprecedented specialization of occupations has not yet had time to work itself clear.

The effects of the like one-sided discipline are similarly visible in the highly irregular, conventionally indefensible attitude of the industrial classes in the current labor and wage disputes, not of an avowedly socialistic aim. So also as regards the departure from the ancient norm in such non-economic, or secondarily economic matters as the family relation and responsibility, where the disintegration of conventionalities in the industrial towns is said to threaten the foundations of domestic life and morality; and again as regards the growing inability of men trained to materialistic, industrial habits of thought to appreciate, or even to apprehend, the meaning of religious appeals and consolations that proceed on the old fashioned conventional or metaphysical grounds of validity. But these and other like directions in which the cultural effects of the modern specialization of occupations, whether in industry or in business, may be traceable can not be followed up here.

## THE NEXT DECADE OF ECONOMIC THEORY.

BY FRANK A. FETTER.

To forecast from present tendencies and current theories the direction of further development in the abstracter economics is, as I fully realize, an undertaking venturesome and liable to error. Even when years have passed, it is not always possible to characterize a decade or a generation of growth in any science, to say that just this or that tendency was the dominant one during the period in question. There are so many lines of thought, so many practical problems to influence, so many varieties of thinkers, that there has not been a year since Adam Smith published his work in which almost every leading aspect of economics has not been to some degree under discussion. There has been continuity in the growth of economic thought, yet certain periods are marked by the peculiar development of some leading economic doctrine. As the thoughts of men have been ripe for a new study of a special group of industrial phenomena, and for a new statement of their relations, and as the practical needs of the day have prompted to new attempts at economic theories, that subject or group of subjects has taken the center of the field of attention. On this basis we may distinguish various epochs in economic theory.

### EPOCH OF THE UTILITY VALUE DISCUSSION.

Certainly the years from 1885 on belong to the utility value theorists. The Austrian writers, read at once in the original by English and American students, and quickly introduced to the broader English speaking public through excellent translations, hold the center

of the stage. The work of Jevons, in date of publication so much earlier, must be credited to this later period if the decision is made with reference to the interest attracted and the discussion aroused. American economics may almost be said to have won its spurs in the independent development of some essential parts of the doctrine and in the opening up of new fields of psychological analysis which have yielded some of the most valuable fruits of the discussion. This sudden revival of abstracter or deductive economics, just as such studies seemed to be growing into discredit, is one of the most remarkable chapters in economic theory. Without question the period has been one in which economic analysis has grown keener and economic thought has taken a broader view.

#### SOME RESULTS OF THE VALUE DISCUSSION.

The President of this Association not long ago published a survey of the last "Decade of Economic Theory" in the United States. Some may dissent from portions of it (for when did one economist ever agree entirely with another?), but as a whole it is, though condensed, so comprehensive and satisfactory that it would be idle to attempt to cover that ground again. Let us then merely put in relief some results of the value discussion, the principal feature of this period, so far as it concerns abstracter economic analysis. Certain of its results which must be recognized are the following:

The old cost-of-production theory of value is discredited as anything more than an immediate and superficially practical explanation of prices.

The utility principle is no longer a supernumerary member, but is the strongest limb of our value theory.

The importance of wants, motives and consumption in the discussion has been greatly and permanently enlarged.

The marginal principle as a device of explanation and as a mode of thought, has become indispensable, and is finding new applications constantly.

A satisfactory statement of the relations of supply and utility in the determination of value, though attempted by many, does not seem to have yet been attained, though the essential nature of this relation is certainly perceived by a large number of students.

That a universal law of value is possible, which will explain in a broad way the value importance assigned to every economic agent, has become almost unconsciously, within the last few years, the firm conviction of students.

The old artificially cumbersome system of separate "laws" and explanations for each of the leading factors of production, has become an anachronism in our text books.

These ideas, so startling a short time ago, have become a part of the accepted stock of economic doctrines to the great body of oncoming students. Those of us who got our first bent in economic theory more than ten years ago, before this notable development, must beware of the personal equation in judging of the progress of such doctrines. The younger generation is adjusting itself to these new modes of thought; to it they are no longer in controversy. The significance of these developments in economic theory we cannot yet fully realize. They are changing our methods of approach to every practical problem in economics. They are having further results in economic theory.



## THE CHANGING VIEW OF THE FACTOR CAPITAL.

Let us turn now from these attained results of the value discussion, to some of the yet immature though ripening fruits. A central doctrine like that of value can not undergo such great changes as these without compelling soon a readjustment of all the doctrines with which it is intertwined. One of the most important to note is the change in the whole conception of the factors of production and of the relation of the conventional shares to each other. First to mention is the concept of capital. There has been a marked lull for several years past in the discussion of this branch of economic theory, which might give the impression that the discussion was generally considered closed and that interest in it had ceased. Such is far from the case. The seeds of doubt sown by the able series of articles on the nature of capital that appeared from 1890 to 1896 have been ripening in many minds. The main connection of this with the value discussion is found in the idea of the origin of capital. The conventional capital concept is a cost-of-production concept. The value of capital is traced to former labor which has been needed to produce it. Such a concept involves many internal inconsistencies, manifest on any close study, and many external inconsistencies manifest on its every application to practical affairs. So dominant, however, has been the cost-of-production theory of value in the thoughts of men, that these essential objections have been waved aside as only petty and apparent exceptions which must be found in any application of general formula to actual affairs. Capital has been treated as the product of labor, though there were thousands of things included in capital which, as monopolized fruits of natural resources, had cost no

labor or but an insignificant show of it. We have been told at one moment that rent was not measured by labor or due to it, but was a surplus gained without labor, and in the next we have seen the wealth that was paid over to the landlord as rent used by him as capital and defined as the product of labor. We are told in all the text books that capital is "stored up labor", that "its value is due to labor", that "it is labor in another form", both the ideas and the antique phrases reflecting the labor theory of value. We have continued to use these phrases after we have made laughing stock of that theory, and after we have recognized utility, regardless of the origin of the good, as the measure of value. Writers who use in a masterly way the utility and marginal concepts, nevertheless accept as an ultimate standard of value a rejuvenated Ricardian or Marxian labor unit. Nothing could more emphasize the hold of the old thought modes and the vigorous effort that must be made to be rid of them.

The old capital concept is in unstable equilibrium. The difficulties are too apparent and too many minds are seeking a way to avoid them, for this situation long to continue. Thousands of students are treading the paths of doubt and inquiry. Logical consistency demands that the capital concept be framed without reference to labor as its source or origin, and without limits as to its use. When the utility theory displaced the cost-of-production theory of value, this change of the capital concept became a logical necessity.

With this, of course, must go a change in the whole conception of interest, which likewise is connected in the still current treatment with a factor that has been produced by labor. The multitudinous and naïve in-

consistencies of the older treatment became apparent when viewed in the light of the later value theory.

#### THE CHANGING CONCEPT OF RENT.

While this change is going on in the capital concept the rent concept is changing also, and from the same logical causes. The old rent concept, long supposed to be the surest attainment of economic theory, depended in a negative way on the labor theory of value. While capital was supposed to be the product of human effort, and interest in an indirect way a payment for it, rent on the contrary was a surplus coming without human effort. It was the one great exception to the cost-of-production theory, an exception, however, which was supposed not to weaken but to strengthen the theory, by giving it a paradoxical, carefully guarded and completed air. A favorite test of economic acumen for generations has been a comprehension of the phrase, "Rent does not enter into the cost-of-production." Though this may be true, (it is the central thesis of a recent and valuable book on economic theory,) many students are coming to believe that it is merely an illogical trick in the explanation of values. The difficulties of the rent theory as confined to natural resources began early to manifest themselves, as a study of the older authors shows. Long before the utility theory brought such doubt into the economic world, the theory of rent, the "*pons asinorum*" of political economy, as Mill called it, was becoming a very difficult bridge for even the most orthodox thinkers to cross, without cutting some very asinary capers, judged by Mill's maxim. A study of our contemporary writers shows the concept in ruins. Marshall, who has connected "quasi rents" with every agent of production, and made land rent only a species

of a large genus, has gone further from the old system of distribution than he appears to have dreamed of in starting. Macfarlane has made an interesting and able attempt to give to the rent concept some excuse for being, but in widening it to the "price determined" factor, he has wrecked it beyond recognition. Hobson has retained the conventional division of the two material factors with no hint of doubt of their consistency, but has extended the concept of rent until it envelops the economic world. Clark started twelve years ago, it would seem, from the idea of Bastiat, that the rent of land can be reduced to a payment for labor, and applied this in criticism of the single tax doctrine. As he has developed this independently he has met the other converging lines of thought on rent, and in his last work gives the most satisfactory statement yet made of an emancipated rent concept. The situation is not final, and at no time since Adam Smith has greater confusion of terminology existed, or have opinions upon important questions of economic theory been more unsettled. The logical development of the theory of value must bring us soon to more general agreement as to a theory of monopoly, scarcity, or differential gains, which was the starting point of the development of the theory of rent. Whether the rent concept is to be broadened to cover all such cases, or is to be defined as something still different, is one of the important questions of economic theory to be settled in the next decade.

#### THE PRACTICAL NEED OF NEW CONCEPTS.

What has been said must not be taken to imply a belief in the growth of theory from internal logical necessity, independent of, and uninfluenced by, the practical needs of the times. Few cherish now such an idea of

theory. The conventional concepts of capital and interest, land and rent, were largely determined, as is now generally recognized, by the conditions of the times in which they were developed. The living questions and practical interests of to-day are having no less influence in determining the lines of economic speculation and the form it shall take. And it is likely that when the future chapter shall be written on the economic theory of this day, it will be said that industrial needs were stimulating to a development of the leading economic concepts in the same direction along which theoretical consistency was urging. This thought may be stated more specifically.

STAGES OF INDUSTRIAL DEVELOPMENT AND CORRESPONDING CAPITAL CONCEPTS.

A century ago, when economic concepts were taking the form they have in the main retained, even then they were an illogical compromise between two sets of ideas belonging to two different economic epochs. The mediæval agricultural and natural economy had rent payments and physical measurements as its typical and general form of contract and payment. The new industrial, capitalistic, and money economy was developing rapidly, but had not become dominant as it is to-day. Even such city men as Ricardo were so under the influence of the old ways of thought that the real difference between these two kinds of economic conceptions could not be clearly seen by them. Rent as a return to natural resources seemed a different kind of return, with a different source, from interest as a return to city wealth, so evidently the work of man's hands, whose value was so easily transferable, and whose return always took the money expression. They never doubted that they were

taking the same point of view as they looked at the two factors, two shares, two economic laws, that seemed so essentially different. In fact they were taking two different points of view, one of the 16th and one of the 19th century, and were thus finding contrasts and distinctions which corresponded, not with reality, but with their own shifting modes of thought. The enormous development recently of capitalistic enterprise, the marketing of every form of natural resource by means of shares and bonds, the expression in money form of the value of nearly every kind of wealth and the decline of the agricultural and extractive industries in relative social and economic importance, have made this unconscious confusion of mediaeval and modern viewpoints in economic theory an increasing hinderance to clear and practical thinking. In order to be suited to the discussions of an age that is increasingly industrial, the capital concept must be unified and cleared of its feudal elements.

#### THE SCARCITY FACTOR THEN AND NOW.

The old rent concept also is found to be inadequate in this age of rapid growth of industrial corporations which enjoy some public franchise or peculiar economic situation, of large industry exercising a power on prices over areas and periods more or less extended, and of multiplying trusts and monopolies. The theorists of a century ago, looking on value from the cost-of-production standpoint, thought of monopoly as a rare thing, due generally to political favor, and almost negligible in ordinary economic discussion. The contribution and value of land, the only exception to the law of labor value that was quite obvious to them, was accounted for by "the law of rent". Now when our economic

growth is bringing to our attention every day new instances of the influence of scarcity on value, often by social changes outside the control of the one who gains by them, often by the capitalists own manipulations, it can no longer be ignored that the coat of economic theory is a bad misfit. It is, in Hibernian phrase, too long at one end and too short at the other. The rent theory explains so much that it is not true in one direction, and in the other it does not explain at all. This difficulty worried even Ricardo, it caused Mill a deal of anxiety, and industrial developments have made it greater every year. There is no solution short of a new terminology. The Ricardian law of rent is being relegated by industrial development to the curiosity shop of outgrown economic theories.

#### SOME PROPOSITIONS.

These are some of the difficulties. In order that the suggestions as to the kind of work to be done in the next decade may be specific, and may serve as a basis for thought and discussion, some propositions expressed or implied in the foregoing paragraphs may be recapitulated.

1. The concept of capital must be given an importance in economic theory corresponding to the dominant place of capitalistic enterprise in present industrial affairs.

2. The concept must be re-defined so as to correspond more closely with commercial usage and the needs of practical discussion.

3. The conventional division of the factors of production is illogical, and must be abandoned. This involves a re-study of many problems and a re-writing of large portions of economic literature.



4. The old idea of rent as a payment for a gift of nature must be rejected; it is questionable whether the later tendency to extend the term rent to every differential gain will prove to be a fortunate development.

5. The labor theory of value and the notion of labor units as in some way usable for a standard of value, are persistent errors which vitiate a large part of current economic discussion, and must be completely thrown aside.

6. The doctrines of rent and interest as currently taught are hopelessly entangled in these old and illogical distinctions. The two forms of return for material goods must be considered as differing in modes of calculation, not as to kinds of agents and as kinds of return.

#### RESTATEMENT OF THE OBJECTS OF THIS PAPER.

The object of this paper may now be restated as follows:

1. To account rationally for the conviction that has been growing among economists that economic terminology is in an unsatisfactory state.

2. To show the necessity of rewriting the theory of distribution along radically new lines.

3. To reduce the mental friction and waste of social energy that must accompany the acceptance of doctrines, a readjustment of which is shown to be inevitable.

4. To indicate specifically the direction which the new doctrines must take, the points at which energy of thought may most effectively be applied.

## DISCUSSION.

Mr. E. R. A. SELIGMAN: All economic theory at the present time is in a state of flux. Many of us will agree with the statement of the last speaker that the book of Professor Clark's is in some respects the high water mark of recent economic achievement. Personally I should be disposed to hold that it puts its author in the same list with the six leading economists of the English speaking world—Smith, Ricardo, Mill, Cairnes, Jevons, and Marshall. Its value consists, in my mind, chiefly in the co-ordination of the factors of production and distribution through the light it throws upon the theory of rent. It carries to its logical conclusion the application of the doctrine of marginal productivity. It shows that what we measure in commodities is marginal increments of wealth, and it applies this principle in a novel and fruitful way to many of the problems of distribution.

The point which I desire to emphasize, however, is that Mr. Fetter in his ardor of conviction and enthusiasm in favor of the newer views, is perhaps, predisposed, somewhat to overrate and to exaggerate the antagonism between the newer and the older views. Professor Marshall has carried the opposite tendency to an extreme when he sought to show that pretty much everything in modern economics is to be found in Ricardo. Both of these statements, it seems to me, are incorrect. For instance, Mr. Fetter has stated that the cost-of-production theory must be relegated to the limbo of antiquities, and that it is now replaced by the final utility theory. From one point of view this antagonism is inevitable, but from another point of view—which, by the way, has

not been mentioned by Professor Marshall—the antagonism is only a seeming one. Let me explain what I mean.

The important subject for investigation in the coming decades seem to me to consist in the further elaboration of the importance of the social element as over against the individual element in the theory of value. When once the full implications of the statement that economics is social economics, not individual economics, are recognized, it will be seen that much of the present contest is idle. From the social point of view, marginal utility is equal to marginal disutility, and from the social point of view again—even though not from the individual—marginal disutility is nothing but marginal cost. Therefore, correctly interpreted, all those who have been developing the recent admirable theories of marginal utility, are only re-stating in more exact and in more refined form, a theory which the older writers were hinting at, without recognizing its full import. The writer whose works contain more hints as to the way in which this reconciliation can be effected than any other, is Pantaleoni, whose acute work on "Pure Economics" has much to say of the relations between marginal utility and marginal disutility. But, unfortunately, he fails to make clear the distinction between the individual and the social points of view. The social point of view in connection with the theory of value was first advocated by Karl Marx, but he again emphasized it in an incorrect way, and was moreover entirely ignorant of the marginal utility doctrine. Correctly interpreted, by means of the social organon, it will be recognized that the cost-of-production or labor theory is just as true as the doctrine of marginal utility, and that instead of antagonizing each other, they really supplement each

other. It is because Professor Fetter, and for that matter almost all modern writers, have neglected an analysis of the social element in value, that their contention seems to me to be much exaggerated.

What is the application of all this? I think it will serve to throw light upon many points in general economic theory. It will lead us to revise the arguments of the classical school in the newer light, but not in the light of opposition. Take the law of comparative costs in foreign exchange, as elaborated by Ricardo and Mill. I presume there is no law more universally accepted by economists, yet it is simply one instance, one illustration, of a much wider law which applies to value, and the importance of which was not recognized by classical thinkers themselves.

Instead of looking at all problems from the point of view of individual cost, we must regard them from the point of view of social cost; and when this is once done, it will be seen that social cost or social marginal disutility is equivalent to social marginal utility. Then it will be recognized that there is far more continuity in the history of economic doctrine than has been supposed.

MR. C. A. TUTTLE: I think many, perhaps most of us, can sympathize with the psychic state which inspired the writing of the paper we have just heard. Every student has had to think his way to clearness, in spite of, rather than by the aid of, the traditional economic concepts. We can all, it seems to me, agree fully with the writer "that economic terminology is in an unsatisfactory state". The paper is, however, an exceedingly difficult one to discuss, as it neither presents a definite statement of the writer's views as to the direction which "the next decade of economic theory"

must take, nor formulates definitely the grounds for a specific trend in future theory. It is undoubtedly true that the utility theory of value has revolutionized the concepts underlying the terminology of the classical economists. The recognition of the fact that concepts are liable to change, while terminology tends to remain fixed, goes far toward solving the difficulty. The searching re-examination of fundamental concepts, which has characterized the last twenty years and is still in progress, has brought encouraging results. The student has to-day a much more efficient equipment than formerly for the investigation of practical questions.

With few exceptions I find myself in accord with the specific statements of the writer. I am not prepared to relegate the theory of rent "to the curiosity shop of out-grown economic theories". The statement that "we are told in all the text text-books that capital is stored-up labor" is startling. I cannot believe it to be a fact.

The general impression made by the paper seems to me far too radical, not to say revolutionary.

MR. F. M. TAYLOR: I want to say just a word on this paper. As I read the copy which Professor Fetter was kind enough to hand me, I was inclined to say at each paragraph, Yes, yes. And perhaps, if I understood the paper as a whole rightly, I should say the same thing now. But the general impression which it makes on me is that of supporting opinions from which I decidedly dissent. Yet if I allow myself to put my feeling as roundly as I am inclined to, probably I shall make an impression as much too strong in the opposite direction as Professor Fetter seems to me to make on his side.

In a general way I do not believe in the discontinuity

of any science, economic or other. I believe that from the time when able men begin the study of any subject, particularly one concerned with social conduct, the science thus established makes substantially continuous progress.

As respects the particular points made by Professor Fetter, I am inclined to say in nearly every case just the opposite of what he said, and in doing so should probably put the case just as much too strongly as he seems to me to have done.

First, I do not believe that marginal utility is to play an expanding role in the new economics. The presumptions of experience are all against such a view. An idea gets put too strongly by one group and reaction sets in. This is taken up by a lot of young men who wish to win their spurs, and in its turn is pushed to an extreme. Presently that extreme is followed by reaction. This is the law of life in every science. If this be true, then whether the doctrine of marginal utility is right or wrong, the next stage in economic progress will naturally be unfavorable to that doctrine. In my opinion this theory has reached its high water mark. I should say with Professor Seligman, that it is chiefly a more refined and subtle way of saying just what all economic theory has said of value. I do not find it easy to give even an elementary course without discussing it, though I have received considerable criticism for mentioning the phrase at all. But, though indispensable to an adequate statement, marginal utility is not, in my opinion, a great constructive idea.

Again, I do not feel my sympathy with the severe condemnation of the cost-of-production theory which Professor Fetter expresses. I find myself laying not

less, but more stress upon this doctrine, and I get the same report from other men.

Again, I am decidedly impatient with Professor Fetter's seeming endorsement of the time worn mistake that Ricardo taught the labor theory of value. He did not get through even the first chapter of the principles without bringing in other elements determining value.

What I have said will serve to illustrate my general attitude toward the opinions expressed in the paper. As far as I can guess the drift of things in economic theory, it seems to me to be going at almost every point in the opposite way from that which Professor Fetter points out. I do not look for the triumph of revolutionary novelties. New methods of presentation will appear and doctrines will be restated with more precise emphasis and with more breadth of view, but at bottom the teaching will be the same as it has been.

MR. E. A. ROSS: I am heartily in sympathy with Professor Fetter's views. I believe we are on the eve of changes which will make economics a true science. The bane of economics in the past has been the persistence in it of physics. The distinction between service and good, or between land and capital, has been physical rather than economic. Professor Clark's great book is about the furthest removed from physics, and we all look upon it as a monumental contribution. It is necessary that physical distinctions between goods or factors of production should be ignored and more attention paid to abstract economic distinctions based on utility or value. Moreover we must recognize that there is no parallelism between the factors of production and the recognized branches of income. Rent is not paid for



land alone, nor interest for "produced means of production".

Another thing that has disturbed the development of our science has been the premature discussion of ethical questions. The economist not only tries to explain interest, he tries to justify it by making it compensation for a particular sacrifice, namely, abstinence. No sooner does he formulate the laws of rent than he undertakes a defense of that form of income against Henry George. Speculative gain is treated in the same way. Now, such preoccupations delay the development of economics into a genuine science. I think that the ethical aspects of our economic system should come after a rational, cold-blooded explanation of what is.

## UNIFORM MUNICIPAL ACCOUNTS AND STATISTICS.

*Report by the Special Committee.*

Municipal economics is a field in which comparatively little thorough and comprehensive work has been done. The chief reason why so few efforts have been made and why the results have been so disappointing, is the general lack of comparable facts and figures. This, in turn, is due to the haphazard and multifarious ways in which municipal accounts are kept and the meagerness and diversity of the municipal reports submitted to the public year after year. The first principles of accounting are understood by only a few of the men in charge of municipal records, and even where those principles are known, lack of co-operation between accounting, financial and technical departments results in misleading figures, or such as do not meet the needs of those who wish to make use of them.

A growing recognition of the foregoing facts has led a number of organizations to appoint committees to consider what may be done to secure satisfactory municipal data. The American Economic Association has joined in this movement, by the appointment of a Committee on Uniform Municipal Accounts and Statistics, which respectfully submits this report for your consideration.

In view of the complexity and magnitude of the task in hand, and of the fact that many other organizations are also engaged upon it, proposals have been made for coöperation by the various committees, in order to save duplication of work and diversity of results where the chief object is uniformity, and also to utilize to the fullest possible extent the special knowledge and training

possessed by the members of the various societies. With these proposals for coöperation your committee is in most hearty accord. If they are carried out, it is hoped that a general conference committee may be formed, composed of members from the committees of the various societies, or that some one committee, having a strong membership, and backed by a society that can provide it with funds, will act as a center for the investigation, receiving and correlating plans from subcommittees and finally reporting a complete scheme for uniform municipal accounts and reports.

Some idea of the magnitude of the task undertaken by the various societies may be gained by examining the accompanying tentative list of municipal activities and interests regarding which statistical information is needed. Doubtless the list might be extended. We have not attempted to classify the topics named, since this is a task to be taken up later on, probably by the central or joint committee of the various societies. The list is as follows :

Baths,	Municipal ownership,
Bonded indebtedness,	Museums of art and science,
Bridges,	Parks and playgrounds,
Cemeteries,	Paving,
Charities,	Police,
Courts of justice,	Printing offices,
Crematories,	Public buildings,
Docks and wharves,	Real estate,
Electric lighting,	Recreation,
Ferries,	River gagings,
Finance (general),	Saloon and other licenses,
Fire protection,	Schools,
Franchises,	Sewage,
Garbage disposal,	Sidewalks,

Gas works,	Special assessments,
Gymnasias,	Street cleaning,
Hospitals,	Street lighting,
Insurance,	Street railways,
Jails and prisons,	Street watering,
Latrines, public,	Taxation,
Markets and slaughter	Telephones,
houses,	Telegraph,
Messenger service,	Vital statistics,
Meteorological records,	Wash houses,
	Water works.

As to the details of what the accounts and reports under each head should include, we will not attempt to state at this time, since that is proper work for the societies specially interested in the several subjects. We may say, however, that the accounts should show clearly the cost of construction, depreciation and maintenance charges, should separate ordinary from extraordinary revenue and expenditures, and that the reports should summarize these facts and give in addition full statistical and descriptive information relating to the nature, extent, working and results of the various municipal works and activities. The full reports of the separate departments should be supplemented by condensed annual summaries, largely statistical, for the entire municipality, such as are issued by many European, and possibly a few American cities.

The work in hand, it should be understood, is really divided into two parts, the second dependent on the first: (1) uniform accounting; (2) uniform methods of summarizing accounts and other information for presentation in city reports, in order to give taxpayers a comprehensive idea of the methods and results of the various city

departments and in order to make possible comparisons between different cities.

Just what part your committee should take in this great co-operative work, will depend largely upon the results of conferences with the other committees, prior to which we hope for full and free discussion from the members of this Association, both at this meeting and by correspondence with the members of the committee.

It has been suggested, and with much force, that this Association might address itself to municipal taxation and finance, bearing in mind that the investigation relates to the recording and publication of facts on a uniform basis, and not to theory, except in so far as theoretical questions now at issue help to determine what facts ought to be recorded and published. As an example of such questions, there may be mentioned: The advisability of placing all taxes on real estate; compensation for municipal franchises; municipal ownership; and the day labor as compared with the contract system of executing municipal works. The statistical information necessary for a proper study of these and many other questions of municipal finance is now lacking, and in hundreds of our cities the accounts are not so kept as to render such a study possible.

The remarks made in the last paragraph open up the whole subject of the need for uniform accounts and reports. This subject was reviewed by the chairman of your committee, prior to the date of its appointment, and the major portion of his discussion is presented herewith as Appendix I. to this report, entitled "Uniform Accounting a Prerequisite to National Municipal Statistics."<sup>1</sup>

<sup>1</sup> *Engineering News*, June 14, 1900, cf. pp. 10-14 post.

The mention of national municipal statistics suggests some consideration of the fact that much, though not all, of the present agitation for greater uniformity arose in the attempt made by the American Society of Civil Engineers, in 1899, to secure the collection of complete municipal statistics by the Twelfth U. S. Census. Directly afterwards, the matter was taken up by the American Society of Municipal Improvements, which already had a committee on municipal data at work on uniform schedules for municipal reports. Between the dates of action by these two societies, the chairman of the present committee called attention<sup>1</sup> to the magnitude and difficulties of the proposed work, pointed out that it could not be undertaken prior to 1902, or until the main inquiries were completed, and asked whether it might not be advisable to entrust the work to the U. S. Department of Labor, which was already engaged in the collection of municipal statistics for cities of 30,000 population and over. Further reflection on the subject showed the necessity of improved methods of municipal accounting, including greater uniformity, before the detailed statistics desired by the two societies just named could be secured, and prompted the discussion on that subject to which reference has been made. While it is true that the best results cannot be obtained until the reforms sought by this and similar committees are effected, it is probable that something in the way of municipal statistics will be collected by the present Census Office, and it is certain that meanwhile the U. S. Department of Labor will continue its inquiries. It is, therefore, pertinent to discuss the question of how much the Census Office ought to undertake, in view of

<sup>1</sup> See editorial, "Municipal Statistics in the Census of 1900," *Engineering News*, July 27, 1899.

the obstacles to be encountered, and also to ask whether the money required for such work would not yield better results if devoted to an extension of the work of the Department of Labor.

During the past six months a number of societies, besides the two named and this Association, have turned their attention to the subject under discussion, and it is a notable fact that nearly all the attention has been concentrated on the question of uniformity, which shows a realization of the need for reform in that particular before the most effective work in the collection of statistics can be done. A list of these societies, twelve in all, with the membership of the several committees, is appended to this report for the convenience of all the workers in this field. (Pp. 28-29 post.)

It should not be inferred from the emphasis laid upon the lack of uniform municipal statistics, that no attempts to that end have been made before. On the contrary, two societies adopted uniform schedules for statistical summaries in water works reports, years ago, and a few others did some work of the same sort before the present agitation began. These attempts were purely voluntary. In addition, a few of our states have recognized the importance of proper municipal accounting and have placed the matter, more or less completely, in the hands of a central state department. Others have proposed boards of municipal control, to have charge of this and other matters relating to cities and towns. The chief results thus far secured, in the way of state control, have been where a commission has been given charge of a single class of municipal service, whether under public or private ownership, such as gas and electric lighting or street railway work. These three lines of effort (voluntary association, general and special state control) were



reviewed in some detail by the chairman of this committee, last July,<sup>1</sup> as will appear on referring to Appendix II. of this report, "Progress Towards Uniform Municipal Statistics in the United States."<sup>2</sup>

Your committee submits the following conclusions:

1. That the interests of good municipal government, economics and public finance demand the collection and publication of state and national municipal statistics.

2. That such statistics, to be of service, should be based on uniform municipal accounting.

3. That, as a rule, American municipal accounting is in a most deplorable condition, being unsystematic, incomplete and misleading; with little correlation between the accounts of different departments of the same city, and the utmost diversity in the accounts of different cities, rendering comparison of the working of different departments and cities always difficult and often impossible.

4. That certain mooted questions of public policy, like municipal ownership, and day labor as compared with the contract system of executing public work, can never be thoroughly or properly studied until greater uniformity in municipal accounts and reports has been secured.

5. That coöperation between the various economic, sanitary, engineering and other technical societies interested in or devoted to municipal affairs, or some branch thereof, should be encouraged, to the end that uniform schemes for municipal accounts and reports, covering the various municipal undertakings and interests,

<sup>1</sup> *Engineering News*, July 5, 1900.

<sup>2</sup> The review has been extended, to bring it down to the close of the year 1900.

whether in public or private hands, may be formulated and adopted.

6. That after the formulation and adoption of these schemes by such coöperative effort, it is desirable that steps should be taken to put them into use by the various municipalities of the country, either under the direction of state boards of municipal control, or special state commissions for different classes of undertakings and interests.

7. That a yearly comparative summary of the municipal statistics of the whole country, made and published by some branch of the national government, would place much valuable information within the reach of many investigators, to whom it would otherwise be unavailable, through lack of time to compile it, or through the impossibility of securing the many necessarily scattered reports.

8. That the summary of statistics for cities of 30,000 and upwards, compiled and published by the U. S. Department of Labor in 1899 and 1900, should be continued, pending improvements in municipal accounting, and that the present Census Office should make an exhibit showing the nature and general extent of municipal activities (a true census, or count) which would serve as a basis for more detailed inquiries after the organization of a permanent census or other statistical bureau, with a staff of experts in municipal engineering, sanitation, vital statistics and sociology, finance and economics generally.

In conclusion, your committee considers this as merely a progress report, owing to the comparative recentness of this agitation and the large amount of work yet to be done. If the Association sees fit to continue the com-

mittee, it requests authority to coöperate with other societies for the attainment of the aims set forth in the above resolutions.

M. N. BAKER, Chairman,  
H. B. GARDNER,  
CHAS. J. BULLOCK,  
EDW. W. BEMIS,  
E. DANA DURAND,  
F. R. CLOW.

## APPENDIX I.

### UNIFORM ACCOUNTING A PREREQUISITE TO NATIONAL MUNICIPAL STATISTICS.

(BY THE CHAIRMAN.<sup>1</sup>)

One of the greatest drawbacks to municipal progress is the lack of correlation and co-operation between the different departments composing city governments and the still lesser degree of co-operation between cities as a class. Although this is true to a large extent the world over, it is more strikingly so in America than in some other countries, owing largely to our lack of central administrative control, both in city and State. In England, which in many respects is less highly centralized than other European countries, we find nearly all municipal functions in the hands of councils, while the actions of those bodies are controlled to a marked degree by the Local Government Board. In the United States the control of public works by city councils has been in inverse proportion to the number and magnitude of the works in hand; that is, one branch after another of municipal service has been cut off from the council and entrusted to separate commissions, until it is not thought strange here to find a single city with water, sewer, street, fire, health and lighting departments, entirely separate and independent of each other and of the city council, except that some, but by no means all, of these departments may be compelled to look to the council for appropriations.

As between the several municipalities<sup>2</sup> of a single State there is often scarcely a common tie, save that each and all are under the same constitution and the control of the same legislature. Most of the constitutions, however, were drawn before our cities attained to anything like their present rank; and the cities and towns are operating, in so many instances, under special charters and acts, that a common legislative control means comparatively little in common after all. Cities in different States of the Union have absolutely nothing in common, of necessity, except a few rights to individuals guaranteed by the Federal constitution.

When our cities were small all these dissimilarities were of little moment; in fact, many of them did not come into existence until brought out by the enormous municipal development of the last few decades. But with the growth of municipal functions, correlation

<sup>1</sup> Slightly condensed from an editorial in *Engineering News* for June 14, 1900.

<sup>2</sup> Municipality, in the broadest sense of the word, includes the minor civil divisions of a state—counties, cities, towns, boroughs and villages. There is a strong tendency, however, to restrict the word to urban, as contrasted with rural communities.

and co-operation are becoming of the greatest importance; otherwise progress is retarded by useless and easily avoidable friction between departments of the same city and between rival cities and towns, and both municipal departments and different municipalities will fail to profit by the experience of predecessors in the same or similar paths.

One of the greatest opportunities for advance is a thorough-going reform in municipal accounting, notably in the direction of uniformity. The need for uniform municipal accounting is becoming more and more evident. It is forced home upon every committee and official appointed to learn how other cities and towns are solving a given problem; upon every convention of municipal officers; and upon such governmental departments of the State or nation as undertake the collection of information relating to cities. The deplorable lack of uniformity found by all investigators is not confined to differences between states or cities, but extends to the various departments of almost every city and village in the land; nor does it stop here, for it is a common thing to find a single department changing the plan or scope of its bookkeeping year after year.

It seems obvious enough that a water-works, sewerage or lighting department of a city must follow a well-conceived plan of accounting year after year if it is to know where it stands and judge of the success or failure of both old and new methods of work. Yet the vast majority of municipal departments have woefully deficient systems of bookkeeping at the outset and annul a large part of the value of those by frequent changes and omissions of details, and even suspensions of accounts. In thousands of cases, departments of more or less importance really keep little or no more than a cash account, subdivided, perhaps, to correspond roughly with the various branches of the department, but with entries most unsystematically distributed to the branch accounts whenever the slightest complexity arises. Charges against or in favor of another department are comparatively rare; or if made are mere debit or credit items in a general cash account. If a water department supplies cast-iron pipe from its stock to the sewer department no entries may be made on the books of either department; while if cash is paid for the pipe it is likely to be entered with the ordinary receipts (revenue from water consumers) of the water department and stands only a fair chance of being properly accounted for in the sewer department. But if, instead of pipe, the water department supplies water to the public schools, sewer, fire and street departments, probably in nine cases out of ten the water department gets no credit whatever for the services rendered. This is a serious matter, particularly in the case of the fire department, since a large part of the original cost of a water-works system, and hence of its capital charges, is due to making the works ample for fire protection, and therefore should fall upon the property benefited, rather than the water consumer. If the burden were properly distributed it would be easier to raise funds to improve the character of the water supply and

also to reduce water rates, so the blessings of pure water would be extended and the health of the community greatly increased.

These are only a few of the evils of haphazard accounting as affecting single departments. Others, and plenty of them, will occur to any intelligent observer on a moment's reflection, chief among which may be mentioned the uncertainties surrounding the great problems of municipal ownership,<sup>1</sup> the contract as against the day-labor plan of carrying out municipal works and the agitation for a "living wage," which is getting to mean \$2 a day for eight hours labor on all municipal work. How can such momentous questions as these be decided when a city keeps its accounts in such a manner that even the first cost of its lighting plants, water-works, sewers or streets cannot be ascertained, much less the respective operating expenses?

Where such confusion exists in single departments the evils are increased when the city as a whole is considered. One department can learn little or nothing from the experience of another, because the accounts of each are improperly kept and there is no attempt at keeping any of them on a comparative basis. It being next to impossible, if not quite so, to ascertain the real financial standing of a single department, the status of the whole city is a hopeless problem. What this means in rates of interest and premiums on bond issues, and in contract prices for materials and supplies, no one can estimate, but it is safe to say that there are not many cities in the United States where needed reforms or improvements in accounting would not save their cost many times over each year in the reduction of interest charges and contract prices. In fact, hundreds of cities would save money in their accounting departments alone by the introduction of improved methods.

When it is so difficult to harmonize the accounts and compare the results of different departments of the same city, attempts to profit by the experience of other cities, so far as it is shown by statistical and other reports, are almost hopeless. The task of collecting information from a few neighboring cities is discouraging in itself, but when attempts are made to compare the meager data obtained, so many discrepancies are found that hope yields to despair. At least such is the case with the trained statistician; but unfortunately the council committees that undertake so many of these investigations are rarely trained statisticians or appreciative of the value of such persons: so the figures are put together somehow and made to fit a preconceived or ill-conceived theory, and money and perhaps human lives are sacrificed as a result.

A consideration of uniformity in municipal accounting is timely just at present, when the attention of the whole country is turned to our twelfth national census. It has been urged by a number of or-

<sup>1</sup> See "Uniform Accounting for Gas and Electric Lighting Companies," by Jas. Blake Cahoon, read before the National Electric Light Association, at Chicago, May 23, 1900.

ganizations. of late, that the present census should include comprehensive inquiries relating to municipal affairs. Thus far, all the requests of the sort addressed to the Census Office have been met with the general statement that under the statute governing the present census municipal inquiries cannot be taken up until the schedules of population, vital statistics, agriculture and manufacturing have been completed, or until about 1902.

As was pointed out (by the chairman), in *Engineering News* of July 27, 1899, in an editorial on "Municipal Statistics in the Census of 1900," the act providing for the twelfth census is so broad in this particular that

it would seem as though the only limitations on the scope of the municipal inquiries for the next census would be the wishes of the director, the funds at his disposal, the inherent difficulties of the task and matters of general expediency.

The greatest of the "inherent difficulties of the task" is the lack of uniform municipal accounting. If this be true, the advocates of the inclusion of detailed municipal inquiries in the next census should bend their energies towards the removal of this obstacle. That it is time to do so no one who has examined many departmental reports of American cities and towns will deny. As an example of what may be learned by this sort of experience, the following may be cited: In the editorial mentioned above it was stated that the U. S. Department of Labor had been authorized by Congress to collect and publish statistics for cities of 30,000 population and upwards. The result of the first attempt was issued a few months later.<sup>1</sup> In the introductory remarks to this bulletin it is stated that the act authorizing the inquiry evidently contemplated a compilation of statistics from municipal reports. On request, many of the officials concerned sent their reports, but some cities stated "that no printed reports were available, while in other cases no reply whatever was received." But this was only the beginning of the difficulties encountered, for:

An examination of the reports received showed that very few facts were reported uniformly by all the cities, and that even the important financial statements were presented in so many different forms as to preclude such classification of the various items as seemed necessary for a satisfactory comparison. \* \* \* Even had the Department been furnished with the reports for all the cities within the limits of the investigation, the many difficulties encountered in a tentative effort with the reports already received led to the conclusion that uniformity and accuracy could only be secured by sending the special agents of the Departments to the cities for the data desired. \* \* \* In many cases the methods of bookkeeping in vogue made a uniform classification of financial items, as called for by the schedules of the Department, very difficult and required much time and labor.

This inquiry covered only 140 of our largest cities, in which accounting systems above the average might be expected. It was conducted by "special agents," presumably of at least fair training in

<sup>1</sup> "Statistics of Cities," Bull. Dept. Labor, No. 24, Sept., 1899. Edited by Carroll D. Wright, Comr.



such work. Therefore all persons with a vivid imagination can picture for themselves the difficulties involved if census enumerators with qualifications similar to those employed in the past were to undertake to cover the 3,500 to 4,000 communities in the United States having public water supplies, or even the cities and towns of 4,000 population and over of which 905 were shown by the census of 1890.

## APPENDIX II.

### PROGRESS TOWARDS UNIFORM MUNICIPAL STATISTICS IN THE UNITED STATES.

(BY THE CHAIRMAN.<sup>1</sup>)

The work thus far accomplished in the United States in the way of uniform municipal accounts and reports has proceeded along three main lines: (1) State supervision of accounts, sometimes involving state audit, and in one or two instances, at least, including annual reports to a State officer on forms prescribed by him. (2) State administrative control of certain local interests or industries, such as street railways, lighting plants, sewerage systems, water-works, vital statistics, assessment and taxation and public schools. (3) Voluntary action by organizations devoted to some branch of municipal activity, such as water and lighting plants, pavements and sewers, street railways and municipal laboratories. Much of the work done by these organizations has gone no further than the mere adoption of schedules, and often these have fallen to the ground by their own weight, through over-elaborateness, or else because of the apathy of the members, or the lack of proper men or funds to carry out the desired reforms. There has been one notable exception in evidence for a dozen years, and some promising new moves are now being made.

#### STATE SUPERVISION OF MUNICIPAL ACCOUNTS.

The principal successful attempts to secure State control of municipal accounts (other than county) in this country seem to have been in Wyoming, Virginia and Indiana, where certain classes of municipalities are required by law to report annually to the State Auditor, or some like official.<sup>2</sup>

<sup>1</sup> Slightly modified and brought down to date, from *Engineering News*, July 5, 1900.

<sup>2</sup> The following references to the literature of this subject and the broader one of State Boards of Municipal Control, both here and abroad, will enable those interested to pursue the subject further:

"State Supervision for Cities," by Prof. John R. Commons. *Annals American Academy of Political Science*, vol. V, p. 37 (1895).

"State Boards of Municipal Control," by Fred'k. Wm. Holls, Proc. National Municipal League, 1896.

In Alabama, Kansas, Massachusetts, Minnesota, New York, North Dakota and South Dakota, according to Prof. J. W. Jenks (see footnote), State Examiners or similar officers were in existence in 1898, with more or less control over county accounts. Some or all of these officials control State accounts as well, all of which shows that the movement towards the State supervision of accounts is well under way.

The office of State Examiner was established in Wyoming by the Legislature of 1890-91 (Session Laws, Chap. 84). Besides the supervision of the State institutions and private companies engaged in banking and loan operations, his jurisdiction extends over county, city and town officials, including school districts. According to an excellent summary given in Professor Tooke's article (see list of references in foot note):

The state examiner is empowered and it is his duty to exercise a constant supervision over the books and financial accounts of the municipal corporations of the state. He is required to order and enforce a correct, and, as far as practicable, uniform system of bookkeeping by state, county and municipal officers, so as to afford a suitable check on their action, and to insure the safety and a thorough supervision of the funds of the state and of the counties and other municipal corporations. He has full power to expose false or erroneous systems of accounting, and, when he deems it necessary, to instruct the local officers in the proper methods of keeping their accounts. He may require, from time to time, complete and verified statements of their accounts, and must visit each year, at irregular intervals and without notice, the county officers, and make a thorough examination of the books, accounts and vouchers of such officers. He must, upon request of the city council of any municipality, make a like examination of the accounts of the city and report in the first instance to the council.

In order that these powers may be fully exercised, he may issue subpoenas and administer oaths in the same manner and with the same power to enforce obedience thereof as belongs to the courts of law

"Suggestions for the Study of Municipal Finance," by Prof. Frederick R. Clow. *The Quarterly Journal of Economics*, vol. x, July, 1896.

"Municipal Statistical Offices in Europe," by Dr. Edw. M. Hartwell, City Doc. No. 94 (1897), Boston, Mass.; also, in part, in *Municipal Affairs* for Sept., 1897.

"Uniformity in Municipal Finance," by Prof. C. W. Tooke; and "A State Municipal Board," by Prof. J. W. Jenks. *Municipal Affairs* for June and September, 1898, respectively.

"Public Accounting Under the Proposed Municipal Program," by Prof. L. S. Rowe, and a number of other papers on municipal accounting, Proc. National Municipal League, 1899 and 1900; also (Professor Rowe's paper) in "A Municipal Program." The Macmillan Co.

Facts relating to the work done under the Wyoming law, in "Examinations of Public Accounts" and in "The Benefits Derived from Uniformity and Independent Auditing of Public Accounts," were given in papers by Harry B. Henderson, State Examiner of Wyoming, before the National Municipal League and the League of American Municipalities, respectively, at their annual conventions in 1900; also in Prof. Tooke's article (cited just above).

"English Local Government of To-Day, a Study in the Relations of Central and Local Government," by Milo Roy Maltbie; "The Centralization of Administration in New York State," by John A. Fairlie; and "Public Administration in Massachusetts," by Robt. H. Whitten; Columbia University Publications, 1897 and 1898.

Besides these special papers and books, reference may be made with profit to Prof. Frank J. Goodnow's "Municipal Problems and Municipal Home Rule," and Dr. Albert Shaw's "Municipal Government in Great Britain" and "Municipal Government on the Continent of Europe."

of the state. Any officer refusing or neglecting to make the required returns, under oath, is to be deemed guilty of felony and to be punished by a fine not less than \$1,000 and not exceeding \$5,000, or by imprisonment in the penitentiary not less than one year nor more than five years, or both. Any person making an exhibit, or giving information required, or making any statement under the act, upon oath, who shall knowingly swear falsely concerning the same, is to be deemed guilty of perjury. Any person who shall willfully obstruct or mislead the state examiner in the execution of his duties is guilty of felony and punishable as are officers refusing to make the required returns.

In the enforcement of these provisions the examiner reports to the attorney general, or to the prosecuting attorney of the county, the refusal or neglect of county officers to obey instructions, and such officers must take prompt steps to enforce a compliance on the part of local officials. Further, the examiner may report to the governor at any time any failure of duty of any public official under the supervision. The governor thereupon may, if he thinks the public interest requires such action, suspend such officer from further performance of duty, until a more complete examination can be held or such security obtained as may be demanded for the prompt protection of the public funds. In the case of the discovery of any defalcation in the office of the treasurer of county, city or school district, the examiner is authorized to take immediate control of the office, funds, books and accounts of such officer, and to act as treasurer until such time as the officer accused may be reinstated or finally removed and his successor appointed.

In carrying out the duties of the office, the examiner passes upon every account paid by the order of the county commissioner, to determine whether it is prepared in compliance with the statute, and personally vouches for the form of all bonds given by municipal officers. In general, his supervision extends directly to every account of the counties and indirectly to all the financial operations of other municipal corporations.

Provision for an Examiner of Public Accounts was made in Louisiana in 1892 (Session Laws, Chap. 72). The act authorized the Governor to require this officer to investigate the affairs of any parish. No appropriations were made for carrying out the provisions of this act, and it was repealed in 1894.

The Virginia Legislature of 1898 (Session Laws, Chap. 895) passed an act providing that city and county treasurers must report annually all receipts and expenditures to the auditor of public accounts, according to forms prescribed by him, and that he should publish an abstract of these reports.

A recent Indiana statute (March 3, 1899), provides for the use, by all the township trustees of the state, of a common schedule to be prepared and enforced by the State auditor. The county law of the same date practically secures the same result for the counties by providing for a more systematic preparation of their budgets.<sup>1</sup>

Two attempts, thus far unsuccessful, have been made to establish a comprehensive municipal government board for the State of New York. Their failure, it is believed, has been largely due to a mis-

<sup>1</sup> "The Importance of Uniformity for Purposes of Comparison," Dr. Samuel E. Sparling, Proc. National Municipal League, 1899.

understanding of their intent, and to the fact that all reforms of this sort generally require a number of years of agitation before they are adopted. The New York bill was the outcome of the work of two State commissions appointed by the Governor under an act of 1895 to prepare uniform charters for cities of the second and third classes respectively. The commissions reported separate charter acts, but united in recommending an act providing for a municipal government board to have the general supervision of cities of the second and third classes (all cities in the State except Greater New York and Buffalo). The board would prescribe uniform systems of accounting and reports for every municipal department, besides having power to investigate the affairs of municipalities with the aid of experts. Numerous other provisions were included in the bill, all designed to secure better municipal government (see references, in foot-note, to articles by Messrs. Holls and Jenks).

Another attempt to secure uniform accounts throughout a State is included in "The Revised Municipal Code of Ohio," prepared by a commission last year and submitted to the Legislature of 1900. The whole code failed of adoption, but very likely it will be brought before the legislature again. The code contained provisions relating to municipal accounting almost identical with those in the "Municipal Program" of the National Municipal League, given near the close of this article.<sup>1</sup>

This division of the review may be closed by a mention of the efforts to secure uniform State legislation throughout the country. This effort, it is believed, has been directed more particularly to such subjects as marriage, divorce, insurance and other corporation laws, but all organized efforts having uniformity as their object contribute to the same general end.

#### STATE ADMINISTRATIVE CONTROL OF SINGLE CLASSES OF MUNICIPAL SERVICE THROUGH COMMISSIONS.

The provisions for State control just reviewed relate chiefly to uniform accounting for municipalities as a whole. Far more has been accomplished by State commissions or boards devoted to only one line of municipal activity. These will be considered next.

No single class of municipal records is of more importance than vital statistics. This is so widely recognized that according to Mr. Robert H. Whitten:<sup>2</sup>

Some provision for a general registration of vital statistics is now made by statute in all but 14 States, though the law in many cases is wholly or partially inoperative.

<sup>1</sup>A series of substitute bills, including provisions for uniform accounting and State audit, was introduced in the same session and also failed to pass. See circular address in "Public Policy," April 21, 1900, issued by the Ohio State Board of Commerce, in which the drafting of the substitutes is credited to Allen R. Foote.

<sup>2</sup>"Trend of Legislation in the United States," by Robert Harvey Whitten. Ph.D., Sociology Librarian, University of the State of New York. State Library Bulletin, Legislation, No. 12, May, 1900.

Ten States "have maintained a fairly complete system" of "collection and publication of their vital statistics" for periods ranging from 57 to 2 years. These States, arranged both in chronological and geographical order, are as follows:<sup>1</sup>

Massachusetts .....	1842	Maine .....	1892
Connecticut .....	1848	New Hampshire .....	1880
Rhode Island .....	1853	Vermont .....	1857
Vermont .....	1857	Massachusetts .....	1842
New Jersey .....	1878	Rhode Island .....	1853
New Hampshire .....	1880	Connecticut .....	1848
Delaware .....	1881	New York .....	1893
Maine .....	1892	New Jersey .....	1878
New York .....	1893	Delaware .....	1881
Michigan <sup>2</sup> .....	1897	Michigan <sup>3</sup> .....	1897

In many States which have a partial or no system of State registration of vital statistics, individual cities and towns are doing work ranging all the way from mediocre to excellent. Even where the work is voluntary and isolated it possesses many elements of uniformity with all other statistical records of this class, not only within the particular State in question, but throughout this country, and, to a lesser degree, throughout the world.

Closely akin to the registration of vital statistics is some of the work done by State Boards of Health. Such boards now exist, in various degrees of efficiency, in all but five States (Georgia, Idaho, Montana, Oregon, and Wyoming) according to Mr. Whitten.

The chief work of these boards tending to uniformity of statistics within the several States, aside from that related to vital statistics, is due to the excellent laboratories, maintained by a few of them for the chemical, bacterial, and, more rarely, the microscopical analysis of water. In addition, several of these laboratories make regular analyses of sewage, in order to show what is being accomplished by sewage purification works. Massachusetts has led the way in this, as in so many other lines of modern work. For a dozen years or so it has made periodic analyses, often monthly, of water from the various public supplies of the State. It has gradually extended the same class of work to sewage purification works, collecting and presenting other information than analyses regarding these plants. It has also collected general statistical information regarding water-works, but in the line of uniform water and sewerage statistics its positive control extends little if any beyond its own laboratory. Vermont, Rhode Island, Connecticut, Delaware, Maryland, and Ohio are also analyzing water

<sup>1</sup> "The Past and Present Conditions of Public Hygiene and State Medicine in the United States." By Samuel W. Abbott, Secretary of the Massachusetts State Board of Health. Monograph XIX., American Social Economics, Dept. Social Economy for the U. S. Com. to the Paris Exposition. H. B. Adams, Editor.

<sup>2</sup> Michigan, Minnesota, Indiana, Kentucky, and Alabama have had "a partially complete collection of marriages, births, and deaths for several (a number of) years."

from public supplies, and doing more or less in the way of general studies of stream pollution, but their work is far less extensive than that of Massachusetts.

Perhaps the oldest class of comparative municipal statistics available in this country are those relating to the public schools. State school funds have been distributed on the basis of school attendance for scores of years, and attempts have been made to secure uniform returns of children of school age, school attendance and various other particulars relating to schools. At present, every state in the Union has some form of central control over schools. Since 1867 we have had a national bureau of education, charged particularly with the collection of "such statistics and facts as shall show the condition and progress of education in the several States and Territories." Mention may also be made of the returns of assessed valuations and rates of taxation made in many States.

A body similar in some respects to boards of health is the State Sewerage Commission of New Jersey. So far as has been learned this is the only board authorized by law to require periodic reports from municipalities regarding their sewerage systems. The board was created in 1899, but is now working under a revised statute, passed this year. (Session Laws of 1900, Chap. 72). Sec. 10 of this act is as follows:

On or before Jan. 1, 1900, and thereafter, whenever required by said commission, the mayor of every municipality, and the chairman of every township committee of every township now having, using, owning, leasing or controlling a sewerage plant or system, shall furnish to said commission on blanks to be provided by said commission, a statement showing the disposition made of the sewage of their respective municipalities or townships, and as near as possible the amount discharged each 24 hours, and such other information and data as may be called for by said blanks, to be provided as aforesaid by said commission.

The commission submitted its first report, including returns relating to the sewerage systems of the State, to the New Jersey legislature of 1900.

State Highway Commissions, although having little or no control over records other than their own, are bringing together a rapidly-increasing amount of valuable statistical information relating to the construction of macadam, telford and gravel roads. Massachusetts and New Jersey have led in State road improvements in rural and suburban districts; Connecticut has been giving State aid for a number of years, and New York has just begun. Rhode Island tried the plan for awhile, but abandoned it in 1899. A number of other States have established or appear to be moving towards State highway commissions and State aid, but with these, as with the majority of the commonwealths giving State aid, the contribution towards uniform statistics is more a promise for the future than an actual accomplishment. In reporting on the State roads actually built the various commissions in charge give such leading facts as the character of the

improvement, its width, depth and cost, and sometimes other figures of value. Massachusetts ranks first in the range and completeness of its highway statistics, and although these seem to relate wholly to the work done under its direction, the commission has had full authority from the start to collect general statistics relating to roads and streets. The act of 1892 (Chap. 338), establishing the commission, provided that county, city and town officers should, on request, give the State commissioners

any information required by them concerning the public ways, roads or bridges within their jurisdiction, while in 1893 an act (Chap. 476) enlarging the scope of the commission, stated that it should

from time to time compile statistics relating to the public roads of cities, towns and counties, and make such investigations relating thereto as they (it) shall deem expedient,

at the same time renewing the clause first quoted. The statistics published by the Massachusetts Highway Commission are unequalled in this country. They show, among other things, the physical characteristics of the improvements made under its direction, their cost, the character and cost of the maintenance of State roads, and the results of a long series of laboratory tests on stones used or proposed for use in highway construction throughout the State. Perhaps if the other State commissions had been as amply equipped with funds and legislative powers they would not have lagged so far behind Massachusetts in their statistical work, but it is only fair to Massachusetts to say that the personnel of its commission would have ensured valuable results under the most adverse circumstances.<sup>1</sup>

Still more unique, in some respects, than the Highway Commission and State Board of Health of Massachusetts is its Gas & Electric Light Commission, the only body of the sort on this continent. This commission has recently issued its fifteenth annual report, a volume containing, like its predecessors, a wide range of statistical and descriptive matter regarding each of the gas and electric lighting plants of the State, whether under private or public ownership. When the commission was established its jurisdiction extended to gas plants only, but in 1887 it was given the same power over electric lighting plants, and its authority has been extended from time to time since. It prescribes the forms to be used by the various works in keeping accounts and in making reports of the commission.

Another class of municipal service covered by State commissions is street railways. The railway commissions of Maine, Massachusetts, Connecticut and New York collect quite extensive statistics regarding the street railways of their several States, the details of operation

<sup>1</sup> Reports have been made by the Commissioner of Public Roads of New Jersey each year, beginning with 1894, when State aid was first given. The Connecticut Highway Commission began its work in 1895, and has reported on each year's work since, but as two years' reports are published together, the report for 1899 is not available. Reports for the Vermont Highway Commission were issued in 1894 and 1896, but contained only a few statistics.



being particularly full. The Rhode Island and North Carolina commissions make less complete exhibits. The Illinois commission gives pretty full returns for lines in Chicago. The Vermont commission has had control of electric street railways since 1898. Perhaps some other States should be included in the list. The commissions for the first four States named publish quite a number of items identical in character, or readily comparable. The last report of the Connecticut commission includes a schedule, adopted by several voluntary organizations, designed to secure uniform accounting in the various States. This schedule has already been adopted by the Connecticut commission for use by all the street railways of that State after June 30, 1900, and it is reported that it has been recommended for adoption in all the other States whose railway commissions have annual joint meetings with the Interstate Commerce Commission.

Among the various investigations undertaken by State bureaus of labor statistics some have been more or less closely related to municipal questions, and have tended or will tend towards uniformity. Probably the bulk of this work, however, has done more to show the need of uniform municipal statistics than to bring them into existence. Notable among the inquiries attempted by these boards has been one carried out in many States to determine the relative advantages of municipal and private ownership of water-works and lighting plants. The results in some States have been published in the annual reports of the corresponding boards. The inquiry has been supplemented by the U. S. Department of Labor, whose report for 1899 is devoted to statistics relating to municipal and private ownership of water, gas and electric light plants.

Another important undertaking by the U. S. Department of Labor is the collection of statistics of cities having a population of 30,000 and upwards (see Appendix I). Like the investigation of municipal ownership, this undertaking has also shown the deplorable lack of uniformity in municipal accounts and reports.

There are two classes of records, which, while not strictly municipal, are sometimes kept by cities and towns, and are very essential to the design and operation of some of the most important municipal works. These are meteorological statistics and stream gagings. Through our national and state weather bureaus uniform meteorological records are being kept in many cities distributed over the whole country. The hydrographical department of the U. S. Geological Survey and departments of some of our States are making periodic stream gagings at various widely-distributed points. In addition to national and State work in these two lines many cities have maintained meteorological and stream gaging stations for years past, thus adding to the records available for comparative purposes.

#### THE WORK OF VOLUNTARY NATIONAL ORGANIZATIONS.

What appears to be the most promising recent attempt to secure interstate uniformity in any branch of municipal statistics has already

been mentioned in connection with street railway returns to the Connecticut Railroad Commission. According to the last report of that body a committee to devise a uniform system of street railway accounts and reports was appointed in May, 1897, by the National Convention of Railroad Commissioners, which met jointly with the Interstate Commerce Commission at St. Louis. Without going into the details of the succeeding steps, it may be stated that at the meeting of the same association held in Denver, in August, 1899, the committee in question submitted a report which in the meantime had been revised and adopted by the Street Railway Accountants' Association of America, and had also been approved by the Association of American Railway Accounting Officers. This report was adopted by the Denver convention, so that it now has the sanction of three separate voluntary national organizations, one made up of State officials, and the other two drawing their membership from street railway and general railway accountants respectively. The schedule in question occupies 77 pages of the report of the Connecticut Railroad Commission for 1899. Its scope is partly indicated by its title:

*A Standard System of Street Railway Accounting, Covering the Classification of Construction and Equipment Accounts, Classification of Operating Expense Accounts, and Forms of Monthly and Annual Reports.*

As has been stated, this standard system has been prescribed by the Connecticut Railroad Commission for all the street railways of that State and recommended in other states. If it is as admirable a system of accounts and reports as is indicated by its origin and by a hasty examination of its details, it is to be hoped that it will be adopted by all other State railroad commissions.

The earliest achievement by a voluntary organization in securing the adoption by its members of a system of uniform municipal reports, so far as can be learned, falls to the credit of the New England Water Works Association, a body with greater geographical breadth than is implied by its name. In June, 1885, this association adopted a scheme for the statistical portion of the annual reports of water departments, as submitted by a committee consisting of Messrs. William R. Billings and R. C. P. Coggeshall.<sup>1</sup> This schedule is a model of its kind, not being so ambitious as to defeat its object through over-elaborateness, but yet presenting a comprehensive summary of the character of the works in question, and their operation during the year, and at the same time going into detail in a few essential particulars. Just how many works have adopted this form we cannot say, but the number has been sufficient to warrant the tabulation of the chief items by cities, and the presentation of the results from time to time in the *Journal of the New England Water Works Association*. In this way, comparative figures have been given for the years 1886 to 1896, inclusive. The greatest number of cities represented in any

<sup>1</sup> *Trans. N. E. Water Works Association, 1885, p. 118.*

one table has been 23, (since increased to 28). This figure, it is true, was only a small percentage of the membership of the association, and a far smaller percentage of all the water works in the country. At the annual meeting of the association, in September, 1900, the matter of co-operating with other societies to secure uniform statistics was presented and provision was made for the appointment of a committee to consider the proposition and to report on a revision of its schedule. A month or two before the adoption of this report by the New England Water Works Association, a similar committee consisting of Messrs. J. J. R. Croes, M. Am. Soc. C. E., and Chas. G. Price, submitted a brief outline for a uniform system of annual reports to the American Water Works Association. No action on the report seems to have been taken by the convention further than to order it printed with the proceedings, and it appears that the good work done by the committee stopped when it submitted its report, although the form may have been used awhile by a few works.<sup>1</sup>

In 1898, the Committee on Municipal Data, consisting of Messrs. Charles C. Brown, Bloomington, Ill., Lansing H. Beach, Washington, D. C., and A. D. Thompson, Peoria, Ill., submitted to the American Society of Municipal Improvements three forms for making up annual reports on water-works, sewerage and street paving, respectively. In 1899, the same forms were again submitted to the society, having been under consideration by the committee during the intervening year. It does not appear that the forms were adopted by the society at either meeting. So far as the committee knew, no members had used the forms in making up annual reports, and, more discouraging still, although the committee had urgently requested members to criticise the forms, none had done so during the year. The committee was continued for another year, Mr. Brown remaining in service, but Messrs. L. E. Farnham, of Camden, N. J., and David Hunter, Jr., of Allegheny, Pa., being substituted for the other two original members. In 1900, Mr. Brown submitted a third report from this committee, continuing its former recommendations, and advising co-operation with other societies. The committee was continued, and was consolidated with another one, appointed in 1899, to secure the inclusion of municipal statistics in the census of 1900.<sup>2</sup>

The Central States Water-Works Association also appointed a committee on this subject in 1900, so that if the American Water-Works Association renews its interest in the subject at its annual convention in the first part of 1901, as it very likely will, there will be four societies at work on uniform water-works statistics.

About 1890, the Western Gas Association perfected a form for reporting on gas operations up to gas in the holder, but it appears that nothing further came of the action. At the meeting of the same association a few weeks ago, Mr. W. E. Steinwedell, of Belleville, Ill.,

<sup>1</sup> Proc. Am. W. W. Assoc., 1881-6, p. 257.

<sup>2</sup> See Proc. Am. Soc. Municipal Improvements, 1898-99-1900.

presented a paper entitled "Monthly Technical Report of Operations in Coal Gas Works," which included a schedule for uniform reports. Later on, a motion looking to the securing of uniform reports was unfavorably received.

The American Gas Light Association at its Denver meeting in October, 1900, appointed a committee on this question.<sup>1</sup>

At the last meeting of the National Electric Light Association, held at Chicago in May, 1900, Mr. Jas. B. Cahoon, of Syracuse, N. Y., submitted detailed forms for uniform gas and electric lighting accounts. The convention voted to have the committee prepare a system of uniform accounting, to be presented at the next annual meeting.<sup>2</sup>

Uniform laboratory methods and results would be of great advantage to engineers and others engaged in municipal work. In 1895, the National Brick Manufacturers' Association inaugurated an "investigation of the methods employed in testing paving brick, with a view to establishing some standard method if possible."<sup>3</sup> A committee of seven was appointed to carry on this work. The committee chose Mr. D. W. Mead, M. Am. Soc. C. E., now of Chicago, as chairman, and Prof. Edw. Orton, Jr., of Columbus, O., as secretary. It submitted its final report to the association at the meeting held in February, 1897. The report, as adopted by the association, is printed in the proceedings of the latter for 1897.

Of more general interest to engineers than the standard for paving brick tests is uniformity in methods of testing cement, a subject which has been under investigation for two years by a committee of the American Society of Civil Engineers. A progress report of this committee was reviewed editorially in the *Engineering News*, June 21, 1900. Cement now enters so extensively into various classes of municipal work that uniform methods of making and reporting the tests would be very advantageous.

Still another class of laboratory work where uniformity is highly desirable is water analysis. The American Public Health Association now has a Committee on Standard Methods of Water Analysis, with Mr. Geo. W. Fuller, Assoc. M. Am. Soc. C. E., of New York, as chairman, and Mr. Geo. C. Whipple, Assoc. M. Am. Soc. C. E., as secretary. The committee was appointed in November, 1899, and presented a valuable report at the annual meeting of the association, at Indianapolis, Ind., in October, 1900.

The American Public Health Association also deserves great credit for its endeavors to improve the classification of vital statistics. In 1893, the system of Dr. Jacques Bertillon, Chief of Statistics of the

<sup>1</sup> At the same meeting a paper on "Government Control of Gas Rates" was read by Mr. Alfred E. Forsvall, Secretary of the Association.

<sup>2</sup> One of Mr. Cahoon's chief objects in submitting the paper and schedules was to stem the tide in favor of municipal ownership and reduction in rates for lighting service. See *Engineering News*, June 14, 1900, for abstract bringing out these points.

<sup>3</sup> "First Annual Report of the Committee on Technical Investigation," National Brick Manufacturers' Association, 1899.

city of Paris, was brought to the attention of the American public by means of a paper by Dr. Bertillon, read before the International Statistical Association, at Chicago. The subject was taken up, the same year, by the American Public Health Association, and after subsequent committee work, it was endorsed by the association in October, 1898. Dr. S. W. Abbott states, in his monograph, previously cited, that :

This committee, through the commendable activity of its secretary, Dr. Wilbur, has accomplished much toward the introduction of the system in several of the registration States, and in some of the larger cities. A very full and complete presentation of the system, with minor details and adaptations to an American population, is printed in the monthly bulletin of vital statistics of Michigan, beginning with February, 1898.

During the summer of 1900, representatives of 26 countries joined at Paris in the revision of the Bertillon classification and adopted the "First International Decennial Revision, Paris, 1900", with provisions for further revisions at the end of each decade. The following organizations have recommended the general adoption of the Bertillon classification on Jan. 1, 1901: International Congress of Hygiene and Demography; International Statistical Institute; American Public Health Association; and International Conference of State and Provincial Boards of Health. All but one of the American registration states and a number of prominent American cities have adopted the classification.<sup>1</sup> Summaries for the various countries of the globe will be published, according to present plans, under the direction of Dr. Bertillon.

Finally, it remains to be said for the American Public Health Association, that its committee on Demography and Statistics in their Sanitary Relation was reorganized in 1900 and authorized to join with other societies in the move for uniform municipal statistics.

In August 1898, the League of American Municipalities adopted resolutions strongly in favor of uniform municipal accounting throughout each State, a State audit for the accounts of both municipalities and of private corporations rendering municipal service, the publication of comparative statements "showing the results of municipal administration," and of accounts "designed to show the entire and true costs of all public utilities operated by any municipality or private corporation." At the meeting of this organization, Dec. 12-15, 1900, a paper was presented on uniform accounting, as listed in the bibliographical foot notes, and it was decided to join in the movement.

In December, 1898, a committee of the National Municipal League reported to that body a "Municipal Program" containing admirable

<sup>1</sup> See "The Bertillon Classification of Causes of Death," Supplement to "*Michigan Monthly Bulletin of Vital Statistics*," Oct., 1900: Cressy L. Wilbur, Lansing, Mich., Editor. The full revised classification may be obtained from Dr. Walter Wyman, Supervising Surgeon General, U. S. Marine Hospital Service, Washington, D. C.

provisions relating to municipal accounting along much the same line as the resolutions noted just above, but in definite shape for incorporation in State constitutions and municipal charters. This Program, after being referred back to the committee, was again reported to the National Municipal League in November, 1899, and adopted, including the provisions in question. These required every city to make financial reports at least yearly to some State official, in accordance with forms and methods prescribed by him, which shall be applicable to all cities within the State; such reports shall be printed as a part of the public documents of the State.

The contents of these reports is specified in outline. The State official to whom they are made would not have the power of general audit, but would be authorized "to examine into the affairs of the financial department of any city within the State." The Program also calls for the publicity of the accounts of all corporations operating under municipal franchises.

The Municipal Program is an admirable model for a city or town charter. The particular features just cited are directly in line with legislation enacted or proposed in several States, as already noted in the first part of this article.

At the last convention of the National Municipal League, held at Detroit, September, 1900, several papers on uniform accounting were presented<sup>1</sup> and the following resolution was adopted:

*Resolved*, That the chairman of the Executive Committee be authorized to appoint from the membership of the League or otherwise, a committee to give special consideration to the subject of uniform municipal accounts and statistics; and to that end to confer with similar committees representing other organizations; and in its discretion to prepare and report to the National Municipal League or its Executive Committee such methods or systems of municipal accounts and collection of municipal statistics as it may find to be most desirable. (Since the foregoing was put in type, word has been received that the American Statistical Association has appointed a committee on uniform municipal accounts and statistics.)

Doubtless most of those who read the foregoing will be surprised to learn how many activities there are tending towards uniform municipal records and reports. But although the list is long the sum total of results is small, compared with what remains to be accomplished. The national government has done, and in the nature of the case can do, but little to secure a uniform system of keeping municipal records. Although there are many States which have done something to secure uniformity, the number of those which have taken up any single line

<sup>1</sup>"Uniform Municipal Accounting," by M. N. Baker; discussion by Jas. Blake Cahoon and Harry B. Henderson. This same general subject was also presented by Mr. Baker, in August and September, 1900, before the annual conventions of the American Society of Municipal Improvements, the Central States Water-Works Association, and the New England Water-Works Association.

of municipal undertakings is small, and of those that have made a decided success of the attempt is smaller still. This is particularly true of the work in which engineers are most interested, such as sewers, pavements and roads, water-works, lighting plants and street railways. In addition to the comparatively small amount of work done by the several States, that accomplished in the different commonwealths is generally so dissimilar as to rob it of a large part of its possible value. Nevertheless, it is very encouraging to see that so much has been done by State legislatures and by the administrative officers created under their acts. The movement as a whole is well under way, and is bound to increase in volume and speed. What is most needed now is unification of methods, both within each State and between the several States. Of the various possible means of bringing this about, as well as extending the movement as a whole, no agency is more promising than the various organizations of engineers, municipal officials and others interested in good city government. Much that has been accomplished thus far is largely due to these societies, and to them we must continue to look. Made up, as their membership is, of citizens from various parts of each State, and from most or all the States of the Union, their influence upon State legislatures is often very great, and by well-directed effort may be increased. The members of these societies not only realize more keenly than the general public the value of uniform statistics; they are also peculiarly fitted by education and professional experience to devise a system for securing such uniformity.

\* \* \* \* \*

If strong committees from these societies could be appointed to co-operate with the representatives of the three organizations first named, much might be accomplished in the interest first of securing and afterwards of collecting uniform municipal statistics. The various organizations could expect the hearty co-operation of a host of State and local engineering societies, State municipal leagues and other associations. These State and local societies would not only give valuable suggestions, but they would have a great and almost indispensable influence in securing the legislative action required to ensure uniform municipal records throughout the country.



### APPENDIX III.

#### MEMBERSHIP OF COMMITTEES ON UNIFORM ACCOUNTS AND STATISTICS, APPOINTED BY VARIOUS ORGANIZA- TIONS DEVOTED TO OR INTERESTED IN MUNICIPAL AFFAIRS.

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##### AMERICAN ECONOMIC ASSOCIATION.

M. N. Baker, 220 Broadway, New York City.  
Prof. H. B. Gardner, Providence, R. I.  
<sup>1</sup> Prof. Chas. J. Bullock, Williamstown, Mass.  
Dr. Ed. W. Bemis, Mount Vernon, N. Y.  
Prof. E. Dana Durand, Bliss Building, Washington, D. C.  
Prof. F. R. Clow, Oshkosh, Wis.

##### AMERICAN GAS LIGHT ASSOCIATION.

A. C. Humphreys, 31 Nassau St., New York City.  
A. P. Lathrop, 6th and Jackson Sts., St. Paul, Minn.  
Lewis Lillie, Broad and Arch Sts., Philadelphia.

##### AMERICAN STATISTICAL ASSOCIATION.

Wm. M. Cole, Fall River, Mass.  
Howard H. Cook, City Hall, Boston, Mass.  
Prof. H. B. Gardner, Providence, R. I.  
Prof. C. W. Tooke, Urbana, Ill.  
Prof. John H. Gray, Evanston, Ill.  
Dr. John R. Commons, Mount Vernon, N. Y.  
G. W. W. Hanger, U. S. Dept. Labor, Washington, D. C.

##### AMERICAN SOCIETY OF CIVIL ENGINEERS.

Samuel Whinery, 95 Liberty St., New York City.  
Rudolph Hering, 100 William St., New York City,  
James Owen, Montclair, N. J.

##### AMERICAN SOCIETY OF MUNICIPAL IMPROVEMENTS.

Charles C. Brown, Commercial Club Bldg., Indianapolis, Ind.  
Capt. H. C. Newcomer, 464 Louisiana Ave., Washington, D. C.  
F. W. Cappelen, Minneapolis, Minn.

<sup>1</sup> Resigned.

## AMERICAN PUBLIC HEALTH ASSOCIATION.

Dr. John S. Fulton, Baltimore, Md.  
Dr. Charles V. Chapin, Providence, R. I.  
Dr. H. M. Bracken, Minneapolis, Minn.  
Dr. Cressy L. Wilbur, Lansing, Mich.  
Dr. William H. Welch, Baltimore, Md.  
M. N. Baker, New York City.  
Dr. William C. Woodward, Washington, D. C.  
Dr. Samuel W. Abbott, Boston, Mass.

## CENTRAL STATES WATER WORKS ASSOCIATION.

W. A. Veach, Newark, O.  
W. B. Mitchell, Piqua, O.  
Fred J. Catlin, Flint, Mich.

## LEAGUE OF AMERICAN MUNICIPALITIES.

J. A. Johnson, Prest., Fargo, N. D.  
John MacVicar, Sec'y., Des Moines, Iowa.

## NATIONAL ELECTRIC LIGHT ASSOCIATION.

E. W. Poole, 100 Broadway, New York City.  
W. F. Ham, Washington, D. C.  
G. E. Tripp, 2 P. O. Square, Boston, Mass.  
W. A. Anthony, Chicago, Ill.

## NATIONAL MUNICIPAL LEAGUE.

Dr. E. M. Hartwell, City Hall, Boston, Mass.  
Prof. J. W. Jenks, Ithaca, N. Y.  
M. N. Baker, 220 Broadway, New York City.  
Dr. Milo R. Maltbie, 52 William St., New York City.  
H. S. Chase, Boston, Mass.  
Simon Sterne, William and Beaver Sts., New York City.  
Harry B. Henderson, Cheyenne, Wyo.  
Prof. Samuel E. Sparling, Madison, Wis.  
Dr. Albert Shaw, 13 Astor Place, New York City.  
Dr. Edward W. Bemis, Mount Vernon, N. Y.  
Clinton Rogers Woodruff, Girard Building, Philadelphia.  
Chas. W. Haskins, 30 Broad St., New York City.  
Frederick A. Cleveland, University of Pennsylvania, Philadelphia, Pa.

## NEW ENGLAND WATER WORKS ASSOCIATION.

Joseph E. Beals, Middleborough, Mass.  
George F. Chace, Taunton, Mass.  
J. C. Whitney, West Newton, Mass.

NEW JERSEY SANITARY ASSOCIATION.

M. N. Baker, 220 Broadway, New York City.

Dr. Henry Mitchell, Trenton, N. J.

Dr. Elias J. Marsh, Paterson, N. J.

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In addition to the above, assurances have been received that the following organizations will take the subject under consideration later on : American Water Works Association, Peter Milne, Secretary, Bennett Building, New York City ; Western Gas Association, John W. Dunbar, Secretary, New Albany, Ind. ; Illinois Society of Engineers and Surveyors, M. S. Ketchum, Secretary, Champaign, Ill. ; International Association of Municipal Electricians, F. P. Foster, Secretary, Corning, N. Y. ; National Civic Federation, Ralph M. Easley, Secretary, First National Bank Building, Chicago.

## DISCUSSION.

MR. ALLEN RIPLEY FOOTE: The report of the committee on "Municipal Accounts and Statistics", in its letter and spirit, is justly entitled to unqualified commendation.

### GENESIS OF THE DEMAND AND WORK DONE FOR UNIFORM ACCOUNTING.

The references contained in this report to the initiations of and work done in behalf of the cause of uniform accounting are exceedingly instructive. Such a record cannot fail to be a source of inspiration and encouragement for those who take only an academic interest in the subject, and of genuine strength for those who are earnestly working to secure the establishment, in every state, of a correct and uniform system of accounting, and the publication of comparative statistics based upon records so kept. All work done for the right gains strength with age. This must be so if good is ultimately to triumph over evil. While ten years is an important period in any person's life, it is not long in the history of a movement like this. We may be satisfied if the rate of progress is slow. Our chief concern should be to make it certain that the movement is always guided in a right direction.

That my own position in regard to this subject may be known and correctly understood, I refer to an incident that occurred ten years ago, in connection with the annual meeting of this Association, held in Washington, D. C., December 26-30, 1890. After Prof. Henry C. Adams had read an admirable paper under the title of

"Statistics as a Means of Correcting Corporate Abuses", I offered the following resolutions:

"*Resolved*, First, that a committee be appointed to designate the divisions of accounts, and the items to be included in each, that should be kept by corporations performing quasi-public services.

"*Resolved*, Second, that said divisions be so made that the effect of each essential economic factor will be shown, to the end that correct statistics may be obtained through a uniform method of accounting as a basis for intelligent economic discussion and legislation."

These resolutions were not discussed for want of time. That I might place them before the members of the Association, with some of my reasons for introducing them, I embodied them in a short paper which I printed in pamphlet form and mailed to every member of the Association under date of January 2nd, 1891. From this pamphlet I take the following extracts:

"It is evident, if the economic advantages obtained by a community through the price paid for a service is to decide the policy of municipal ownership of industries, then those who advocate private ownership must accept the issue on this basis and be ready to show that they can and will perform the same service for the same price that a community pays for it under municipal ownership and administration.

"A condition precedent to the settlement of this question is an agreement on what constitutes cost of service under municipal ownership. It was to establish this agreement that I offered these resolutions Saturday last.

"We must first agree on what items constitute cost, then we must see to it that these items are honestly included in all statements of cost. This done, we are in

position to take intelligent action, and may then award the contract to the municipality or to private enterprise, whichever, in the light of facts so obtained, may appear to be to the best economic advantage of the greater number of people, those who toil and are poor."

Continuing my studies of this subject, I wrote, in 1892, a discussion of the economic principles involved in "The Law of Incorporated Companies Operating under Municipal Franchises."<sup>1</sup> From that discussion I take the following extracts:

"When the public need is to be supplied, the service must be rendered either by the representatives in the name and for the account of the public, or by industrial corporations in the name and for the account of their share and bond holders. Which course shall be pursued is purely a question of public policy. The economic principle involved is that of serving the interests of every individual economically through the service rendered. If this result is gained under the management of a political monopoly more effectually than under the management of an industrial monopoly, then the state is bound, by the sacred trust it represents, to place and keep the management under the administration of the political monopoly; but if the reverse be true, the duty imposed upon the state demands that it shall place and keep the management under the administration of an industrial monopoly."<sup>2</sup>

"It may be affirmed as a fundamental principle for the guidance of economic legislation that no public need should be supplied under the management of political monopoly that can be supplied with equal economic advan-

<sup>1</sup> Robert Clark Company, Cincinnati, Ohio, Publishers.

<sup>2</sup> Chapter XI, page 63.

tage to the users of the service under the management of an industrial monopoly. The best interest of the users of the service is the first object of the protection and care of the state."<sup>1</sup>

Discussing fundamental conditions for the proper regulation of public service corporations, I stated :

"First. That an industrial corporation organized to supply a perpetual municipal need shall have the exclusive right to supply the need perpetually.

"Second. That all accounts shall be honestly and correctly kept ; that economic thrift shall be insisted upon in every department ; and that charges for the use of services shall bear a fixed relation to the necessary cost of production."<sup>2</sup>

Referring to the necessity for a uniform system of accounting in this connection, I said :

"An adequate knowledge of the facts cannot be acquired by occasional inquiries by committees of councils or legislatures. That facts may be established, it is necessary that uniform systems of accounting be adopted, that reports be required on fixed dates, covering similar subjects, for the same periods, in the same form. The system must be well devised, continuous, and obligatory as a condition of incorporation."<sup>3</sup>

I made an effort to bring these propositions into use by drafting several bills for the consideration of the 74th General Assembly, regular session, State of Ohio (1900), under the following titles :

"H. B. No. 861. To provide an efficient civil service for villages and cities.

<sup>1</sup> Chapter XI, page 65.

<sup>2</sup> Chapter XII, page 70.

<sup>3</sup> Chapter XIII, page 87.



"H. B. No. 862. To promote the efficiency of and to provide a uniform system of accounting and reports for village and city governments.

"H. B. No. 863. To prevent deficiencies and to safeguard the interests of taxpayers in the case of villages and cities owning and operating the means of supplying any industrial service.

"H. B. No. 864. To regulate the issuing of bonds by villages and cities for the purpose of acquiring the means of supplying industrial public services by municipal ownership and operation, and to prevent incurring a taxpayers' debt for such purpose.

"H. B. No. 865. To authorize and regulate contracts by and between municipalities and public service corporations."

The full text of these bills, together with a series of articles published over my signature in the *Commercial Tribune*, of Cincinnati, and the *Columbus Citizen*, of Columbus, Ohio, while they were before the legislature, will be found in a pamphlet under the title of "Constitutional Municipal Government".<sup>1</sup>

#### A DANGER THAT MUST BE AVOIDED.

The movement for uniform accounting is now supported by many able and energetic advocates. It has grown with disastrous rapidity during the last three years. Its momentum is cumulative. It will soon be demonstrating its practicability and efficiency by its realized results. In fact it has already done so. During the ten year period covered by this report and discussion, 1890-1900, the state of Wyoming has set an exam-

<sup>1</sup> "Constitutional Municipal Government." Public Policy Publishing Company, Chicago.

ple, and has been reaping the benefits of a uniform system and independent audit for public accounts. It does not become me to describe what has been accomplished in this state, when this has recently been done by the only man who can speak from experience, Mr. Harry B. Henderson, State Examiner for Wyoming, who has devised and administered the system under a ten years' appointment, gave a statement of the benefits realized, in a paper read before the League of American Municipalities at its fourth annual convention, Charleston, S. C., December 12-15, 1900. (This paper will be published in full in *Public Policy* for January 5, 1901.) How the legislature of any state, with his testimony before it, can properly perform its duties to the people without adopting measures designed to establish a uniform system of public accounting and independent audit is incomprehensible to me.

In referring to the growth of the movement to secure uniform systems of accounting, I have used the term "disastrous rapidity" advisedly. Every governmental power is beneficent or harmful in the degree to which it is wisely or unwisely exercised. A uniform system of accounting cannot be beneficent unless it wisely devised or administered. Your committee tells us that "the first principles of accounting are understood by only a few of the men in charge of municipal records." Surely such men are not competent to devise or to audit a uniform system of accounting. Public opinion needs educating, not only to demand that a uniform system of accounting shall be established, but that for its successful establishment and administration the best expert ability obtainable must be employed under conditions that will induce those so employed to make a profession of their vocation, and induce the people to regard them as the

peers of any officer of state. Anything less than this will at some time bring disastrous results. Such a disaster is now impending over the state of Wyoming. It is paying its state examiner a salary of \$2,500 for a service that is saving the taxpayers of the state at least \$100,000 per year. This examiner can easily command \$5,000 per year in private employment. The danger is that he may leave public for private employment. Every person who desires to improve the efficiency of local, state and national governments must use every effort possible to cause the people to understand that "the laborer is worthy of his hire," whether he be publically or privately employed, and that the state has no right to accept a service that involves a pecuniary sacrifice on the part of the person rendering it. The state is as able to pay full value for the service it needs as are private employers. It will do so if it is honest.

A successful system of uniform accounting must be prescribed and administered by men who are capable and honest, whose tenure of office and salary is sufficient to justify them in devoting their lives to the work, and who are as independent of domination by the legislative and executive branches of the government as is the judiciary. I quote again from the discussion of economic principles above referred to:

"To guarantee imparality of administration, the adopted system of accounting and reports should be established as a judicial branch of the government, where it will be least influenced by political or commercial considerations. Those intrusted with the executive work of the system of accounting and reports should be selected for their fitness only. They should not be engaged in any business, nor own an interest in any re-

porting corporation. They should be given long terms of service, and a salary equal to that of the best paid state officials. Under such conditions, real ability can be secured for the service of the state, and exceptional fitness can be acquired by experience."<sup>1</sup>

A NEW DEPARTMENT OF STATE SHOULD BE CREATED.

I wish now to take another step about ten years in advance of public opinion.

The founders of the American republic won undying fame for their wisdom in providing for three independent departments of government, so co-ordinated that neither should be under the domination of any other. To the wisdom of these provisions we to-day ascribe the stability of the nation.

In our day we see the need of a fourth independent department—a *department of statistics and public audit*. This department should be organized similar to the judiciary. Its officers should be appointed or elected in the same manner. They should enjoy the same tenure of office, and receive the same compensation. They should be as independent of domination by the legislative and executive departments as the judiciary. The functions of this department should be to report facts and to prevent waste and frauds, in absolute independence of the political, administrative or commercial exigencies of any party, office holder, or corporation.

IN CONCLUSION.

Assuming that it is in order, I move :

First. That the report of the committee be received

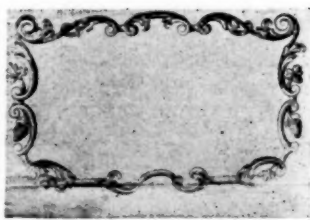
<sup>1</sup> Chapter XIII, page 88.

and published in the proceedings of this meeting and that the committee be continued.

Second. In compliance with the request of the committee it is hereby authorized and directed to co-operate in such manner as it may deem expedient, with any or all other organizations, for the attainment of the aims set forth in the above resolutions.<sup>1</sup>

<sup>1</sup>The action proposed had already been taken by the Executive Committee.





Engraver's proofs of two bills for the Land Bank of 1740 and two designs for borders. Photographed by permission of the Massachusetts Historical Society.